# STATISTICAL INSERT

FOR LCBO ANNUAL REPORT, FISCAL 2001-2002

## Product Listings

| Domestic | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Canadian Whisky | 160 | 168 | 158 | 163 | 153 |
| Canadian Blended Rums | 112 | 123 | 105 | 109 | 87 |
| Canadian Gin | 20 | 22 | 22 | 19 | 16 |
| Canadian Vodka | 70 | 75 | 70 | 75 | 61 |
| Canadian Brandy | 15 | 15 | 18 | 16 | 14 |
| Canadian Spirit Coolers | 56 | 46 | 51 | 64 | 57 |
| Fruit Spirits | 1 | 1 | 0 | 0 | 0 |
| Miscellaneous Liquors | 22 | 23 | 24 | 27 | 30 |
| Canadian Liqueurs | 48 | 53 | 55 | 56 | 56 |
| Ontario Wines | 465 | 477 | 474 | 448 | 429 |
| Ontario Wine Coolers | 5 | 4 | 5 | 7 | 6 |
| Other Canadian Wines | 27 | 39 | 43 | 32 | 40 |
| Canadian Cider | 21 | 18 | 14 | 12 | 6 |
| Canadian Beer (incl. Beer Coolers) | 346 | 385 | 403 | 407 | 426 |
| Alcohol | 3 | 4 | 3 | 3 | 2 |
| Miniatures | 6 | 6 | 9 | 7 | 7 |
| Bitters | 3 | 3 | 3 | 3 | 3 |
| **Total Domestic** | **1,380** | **1,462** | **1,457** | **1,448** | **1,393** |
| **Imported** | | | | | |
| Scotch Whisky | 127 | 135 | 108 | 119 | 112 |
| Irish Whiskey | 8 | 10 | 11 | 10 | 9 |
| American Whiskey | 21 | 21 | 21 | 22 | 24 |
| Gin | 14 | 16 | 17 | 15 | 15 |
| Rum | 18 | 16 | 20 | 29 | 24 |
| Vodka | 38 | 41 | 47 | 53 | 63 |
| Tequila | 9 | 10 | 19 | 23 | 19 |
| Brandy | 72 | 107 | 100 | 101 | 113 |
| Fruit Spirits | 4 | 2 | 3 | 3 | 0 |
| Miscellaneous Liquors | 67 | 78 | 86 | 96 | 128 |
| Liqueurs | 134 | 135 | 125 | 127 | 124 |
| Wines | 958 | 1,080 | 1,187 | 1,111 | 1,155 |
| Beer and Saké | 210 | 216 | 256 | 276 | 252 |
| Miniatures | 19 | 20 | 18 | 28 | 26 |
| Coolers | 9 | 7 | 11 | 7 | 22 |
| Bitters | 10 | 10 | 10 | 10 | 8 |
| Total Imported | 1,718 | 1,904 | 2,039 | 2,030 | 2,094 |
| Total Regular Listings | 3,098 | 3,366 | 3,496 | 3,478 | 3,487 |
| Vintages Wines and Spirits | 3,037 | 3,235 | 3,569 | 3,108 | 2,858 |
| Duty-Free Listings | 213 | 210 | 235 | 212 | 224 |
| Consignment Warehouse and Private Stock | 5,240 | 5,241 | 6,106 | 6,225 | 5,444 |
| **Total Product Listings** | **11,588** | **12,052** | **13,406** | **13,023** | **12,013** |

Note: Canadian blended brandy, which in previous years was listed separately, is now included in the Canadian brandy listings. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

**Sales Channel Summary (value in $000s)**

| LCBO | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Retail Sales | 2,022,638 | 2,209,024 | 2,390,949 | 2,556,340 | 2,752,978 |
| Licensee Sales | 347,083 | 370,496 | 396,879 | 419,731 | 417,478 |
| Agency Sales | 25,059 | 29,180 | 32,420 | 33,981 | 35,578 |
| Duty-Free/Warehouse | 17,318 | 20,696 | 34,454 | 35,943 | 35,442 |
| Duty-Free/LCBO | 13,367 | 13,028 | 303 | 0 | 0 |
| TBS Sales | 64,891 | 80,438 | 109,692 | 128,848 | 172,416 |
| Other Sales | 3,579 | 2,996 | 3,013 | 3,073 | 3,837 |
| **Total** | **2,493,935** | **2,725,858** | **2,967,710** | **3,177,916** | **3,417,729** |
| **The Beer Store** | | | | | |
| Retail & Licensee Sales | 2,114,467 | 2,214,918 | 2,324,225 | 2,381,289 | 2,433,948 |
| **Winery Stores** | | | | | |
| Retail Sales | 136,618 | 133,001 | 140,681 | 147,178 | 162,539 |
| **Other Channels** | | | | | |
| **Legal:** | | | | | |
| Cross-Border Exempt | 153,479 | 136,213 | 155,818 | 208,614 | 210,856 |
| Cross-Border Declared | 3,054 | 3,862 | 3,124 | 2,658 | 2,526 |
| Brew Pubs | 1,737 | 1,652 | 1,950 | 1,624 | 1,548 |
| Wine Pubs | 3,952 | 4,233 | 4,722 | 4,647 | 4,675 |
| U-Brew Beer | 149,534 | 157,633 | 163,959 | 174,425 | 185,265 |
| U-Brew Wine | 549,952 | 585,077 | 611,892 | 608,692 | 612,234 |
| **Total** | **861,708** | **888,670** | **941,465** | **1,000,660** | **1,017,104** |
| **Homemade:** | | | | | |
| Wine | 44,071 | 45,807 | 40,597 | 30,702 | 30,892 |
| Beer | 16,847 | 17,760 | 18,473 | 18,323 | 17,121 |
| **Total** | **60,918** | **63,567** | **59,070** | **49,025** | **48,013** |
| **De-alcoholized Beer:** | **17,708** | **23,872** | **22,314** | **20,870** | **20,191** |
| **Illegal:** | | | | | |
| Smuggling | 393,991 | 353,344 | 279,883 | 270,735 | 299,865 |
| Wine Manufacturing | 189,789 | 189,552 | 175,918 | 135,183 | 132,570 |
| **Total** | **583,780** | **542,896** | **455,801** | **405,918** | **432,435** |
| **Grand Total** | **6,269,134** | **6,592,782** | **6,911,266** | **7,182,856** | **7,531,959** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. The Beer Store and Winery store sales data were supplied by the Brewers of Ontario and individual Ontario wineries.

## Retail Price Breakdowns

### Spirits

| Examples as at March 31, 2002 for 750 mL bottle in Canadian dollars (40% Alcohol) | Imported U.S. | Imported Non-U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $3.5024 | $3.4904 | $3.7102 |
| Federal Excise Tax | $3.3198 | $3.3198 | $3.3198 |
| Federal Import Duty | $0.0000 | $0.0148 | $0.0000 |
| Freight | $0.1669 | $0.1669 | $0.1669 |
| **Total Landed Cost** | **$6.9891** | **$6.9919** | **$7.1969** |
| LCBO Markup | $10.1412 | $10.1383 | $9.9317 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$17.44** | **$17.44** | **$17.44** |
| Goods and Services Tax | $1.22 | $1.22 | $1.22 |
| Provincial Retail Sales Tax | $2.09 | $2.09 | $2.09 |
| **Consumer Price** | **$20.75** | **$20.75** | **$20.75** |

| Revenue Distribution | | | |
|---|---|---|---|
| Supplier (including freight) | $3.67 | $3.66 | $3.88 |
| Government of Canada | $4.54 | $4.55 | $4.54 |
| Government of Ontario | $12.54 | $12.54 | $12.33 |

### Wines

| Examples as at March 31, 2002 for 750 mL bottle in Canadian dollars | Imported U.S. | Imported Non-U.S. | Domestic 100% Ont. |
|---|---|---|---|
| Payment to Supplier | $3.6999 | $3.6345 | $4.0272 |
| Federal Excise Tax | $0.3842 | $0.3842 | $0.3842 |
| Federal Import Duty | $0.0000 | $0.0281 | $0.0000 |
| Freight | $0.1669 | $0.2038 | $0.0000 |
| **Total Landed Cost** | **$4.2510** | **$4.2506** | **$4.4114** |
| LCBO Markup | $2.7206 | $2.7204 | $2.5586 |
| LCBO Wine Levy | $1.1250 | $1.1250 | $1.1250 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$8.40** | **$8.40** | **$8.40** |
| Goods and Services Tax | $0.59 | $0.59 | $0.59 |
| Provincial Retail Sales Tax | $1.01 | $1.01 | $1.01 |
| **Consumer Price** | **$10.00** | **$10.00** | **$10.00** |

| Revenue Distribution | | | |
|---|---|---|---|
| Supplier (including freight) | $3.87 | $3.84 | $4.03 |
| Government of Canada | $0.97 | $1.00 | $0.97 |
| Government of Ontario | $5.16 | $5.16 | $5.00 |

## Beer

| Examples as at March 31, 2002 for a case of 24 x 341 mL bottles in Canadian dollars | Imported U.S. | Imported Non - U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | 10.7691 | 10.7691 | 12.1053 |
| Federal Excise Tax | 2.2903 | 2.2903 | 2.2903 |
| Federal Import Duty | 0.0000 | 0.0000 | 0.0000 |
| Freight | 0.5248 | 0.5248 | 0.5248 |
| **Total Landed Cost** | **13.5842** | **13.5842** | **14.9204** |
| LCBO In-store COS | 4.9595 | 4.9595 | 4.9595 |
| LCBO Out-of-store COS | 1.3422 | 1.3422 | 0.0000 |
| LCBO Markup | 4.1779 | 4.1779 | 4.1779 |
| LCBO Bottle Levy | 1.4404 | 1.4404 | 1.4404 |
| LCBO Environment Fee | 0.0000 | 0.0000 | 0.0000 |
| LCBO Rounding Revenue | 0.0000 | 0.0000 | 0.0000 |
| **Basic Price** | **25.50** | **25.50** | **25.50** |
| Goods and Services Tax | $1.79 | $1.79 | $1.79 |
| Provincial Retail Sales Tax | $3.06 | $3.06 | $3.06 |
| Container Deposit | $2.40 | $2.40 | $2.40 |
| **Consumer Price** | **32.75** | **32.75** | **32.75** |
| Supplier (including freight) | $11.29 | $11.29 | $12.63 |
| Government of Canada | $4.08 | $4.08 | $4.08 |
| Government of Ontario | $14.98 | $14.98 | $13.64 |
| Container Deposit | $2.40 | $2.40 | $2.40 |

### Revenue Distribution

| | Domestic Spirits | Domestic Wine | Domestic Beer |
|---|---|---|---|
| Supplier | 19% | 40% | 39% |
| Federal Government | 22% | 10% | 12% |
| Provincial Government | 59% | 50% | 42% |
| Deposit | | | 7% |

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven-Year Financial Performance Review

**(value in $000s)**

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| Sales and Other Income | $2,939,563 | $2,734,937 | $2,549,458 | $2,349,832 | $2,160,843 |
| Cost of Sales | $1,529,018 | $1,390,575 | $1,288,903 | $1,165,849 | $1,064,286 |
| Gross Profit | $1,410,545 | $1,344,362 | $1,260,555 | $1,183,983 | $1,096,557 |
| Per Cent | 47.98% | 49.16% | 49.44% | 50.39% | 50.75% |
| Operating Expenses | $489,633 | $468,090 | $414,861 | $374,558 | $351,653 |
| Net Income | $920,912 | $876,272 | $845,694 | $809,425 | $744,904 |
| **Statement of Cash Flow** | | | | | |
| Cash Flow from Operations | $965,372 | $917,010 | $876,196 | $834,465 | $769,507 |
| Change in Working Capital | $27,134 | $5,428 | ($15,198) | ($8,651) | ($29,537) |
| Cash Used for Investing Activities | ($55,359) | ($55,610) | ($54,443) | ($40,265) | ($25,524) |
| Cash Used for Provincial Transfers | ($905,000) | ($850,000) | ($800,000) | ($780,000) | ($745,000) |
| Decrease/Increase in Cash During the Year | $32,147 | $16,828 | $6,555 | $5,549 | ($30,554) |
| **Financial Position** | | | | | |
| Current Assets | $334,028 | $330,315 | $308,724 | $275,774 | $230,720 |
| Current Liabilities | $248,067 | $249,367 | $221,226 | $210,029 | $179,175 |
| Working Capital | $85,961 | $80,948 | $87,498 | $65,745 | $51,545 |
| Fixed Assets | $197,895 | $186,996 | $172,124 | $148,183 | $132,958 |
| Total Assets | $531,923 | $517,311 | $480,848 | $423,957 | $363,678 |
| **Financial Ratios** | | | | | |
| Profit Margin | 31.53% | 32.28% | 33.38% | 34.80% | 35.03% |
| Return on Shareholders' Equity | 333.78% | 332.19% | 357.17% | 406.31% | 403.63% |
| Current Ratio | 1.35 | 1.32 | 1.40 | 1.31 | 1.29 |
| **Statistics** | | | | | |
| Inventory Turnover | 5.90 | 5.25 | 5.21 | 5.38 | 5.53 |
| Number of Permanent Employees | 3,225 | 3,174 | 3,074 | 3,014 | 2,934 |
| Sales per Permanent Employee | $905,518 | $855,175 | $824,206 | $771,623 | $724,866 |
| Number of Stores | 599 | 601 | 602 | 600 | 596 |
| Number of Regular Products Listed | 3,487 | 3,478 | 3,496 | 3,366 | 3,098 |

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars.

| 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| $2,013,873 | $1,909,804 | $1,808,518 | $1,764,731 | $1,786,479 | $1,833,386 |
| $988,386 | $919,268 | $858,190 | $832,106 | $841,060 | $851,539 |
| $1,025,487 | $990,536 | $950,328 | $932,625 | $945,419 | $981,847 |
| 50.92% | 51.87% | 52.55% | 52.85% | 52.92% | 53.55% |
| $324,457 | $323,819 | $313,029 | $333,716 | $332,953 | $332,439 |
| $701,030 | $666,717 | $637,299 | $598,909 | $612,466 | $652,458 |
| **Statement of Cash Flow** | | | | | |
| $723,197 | $687,663 | $655,198 | $619,979 | $635,298 | $675,162 |
| $49,819 | $9,659 | $5,473 | ($15,824) | ($8,694) | $6,162 |
| ($19,424) | ($26,256) | ($26,895) | ($14,753) | ($21,075) | ($25,754) |
| ($730,000) | ($680,000) | ($630,000) | ($585,000) | ($615,000) | ($675,000) |
| $23,592 | ($8,934) | $3,776 | $4,402 | ($9,471) | ($19,430) |
| **Financial Position** | | | | | |
| $256,209 | $239,516 | $229,541 | $201,204 | $192,955 | $207,155 |
| $203,647 | $160,727 | $132,159 | $92,813 | $104,789 | $118,212 |
| $52,562 | $78,789 | $97,382 | $108,391 | $88,166 | $88,943 |
| $132,037 | $134,780 | $129,470 | $120,474 | $126,790 | $130,564 |
| $388,246 | $374,296 | $359,011 | $321,678 | $319,745 | $337,719 |
| **Financial Ratios** | | | | | |
| 35.11% | 35.33% | 35.61% | 34.24% | 34.36% | 36.04% |
| 352.13% | 302.76% | 285.63% | 269.90% | 281.94% | 280.50% |
| 1.26 | 1.49 | 1.74 | 2.17 | 1.84 | 1.75 |
| **Statistics** | | | | | |
| 5.02 | 5.07 | 4.92 | 5.02 | 4.70 | 4.72 |
| 2,828 | 2,803 | 2,824 | 2,743 | 3,100 | 3,233 |
| $706,079 | $673,273 | $633,656 | $637,678 | $574,998 | $560,185 |
| 595 | 596 | 597 | 600 | 611 | 618 |
| 2,960 | 3,149 | 3,053 | 2,824 | 2,737 | 2,787 |

LCBO

CELEBRATE

*seventy-five years*

LCBO

ANNUAL REPORT 2000-2001

# Our sixth straight record year

# The Annual Report

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Consumer and Business Services. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace. We've tried to make the report easy to use and understand by using plain language and including a glossary of LCBO terms.

## Contents



## Members of the LCBO Board (during fiscal 2000-2001)

Andrew S. Brandt, *Chair and Chief Executive Officer*

John S. Lacey, *Vice Chair; Member, Audit and Governance Review Committee*

Thom A. Bennett, *Member; Member, Audit and Governance Review Committee*

R.A. (Dick) Dolphin, *Member; Chair, Audit and Governance Review Committee*

John C. Hopper, *Member*

Dr. Merle A. Jacobs, *Member*

Larry C. Gee, *Executive Vice President and Chief Operating Officer*

Chantal E. Haas, *Vice Chair; Member, Audit and Governance Review Committee (resigned February, 2001)*

Richard C. Ling, *Member (term expired September, 2000)*

## Letter of Transmittal

Norman W. Sterling
*Minister*
*Ministry of Consumer and Business Services*

Dear Minister,

I have the honour to present you with the 2000-2001 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
*Chair and CEO*

## Credits


The LCBO wishes to thank the Office of the Provincial Auditor and the Members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Economic Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : LCBO : Rapport annuel 2000-2001.

# Message from the Minister

As Minister of Consumer and Business Services, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2000-2001.

It is the mandate of the LCBO to provide excellent service and product selection to its customers; to maximize its dividend to the taxpayers and Government of Ontario; and to take a leadership role in promoting the socially responsible use of beverage alcohol. As this report documents, the LCBO fulfilled its mandate in these key areas in fiscal 2000-2001.

Customer service continued to improve, both in terms of the shopping environments and the products and services offered. Based on extensive market research, stores are being upgraded and more conveniently located.

Dividend transfers continued to grow this past year to a record $850 million, the sixth straight year the LCBO has achieved a record transfer. These funds – which do not include an additional $255 million in Provincial Sales Tax – help support social programs, services and capital projects that benefit all taxpayers.

The LCBO's commitment to social responsibility was evident on a number of fronts, including in-store programs to prevent sales to minors, people who appear intoxicated or those who would buy beverage alcohol for either of these parties; fundraising efforts on behalf of national and provincial organizations, including MADD Canada; innovative advertising campaigns against impaired driving; and support of municipal Blue Box programs.

The LCBO also worked with our government and the Ontario wine industry to secure greater access to European Union markets for award-winning Ontario Icewines. These outstanding products deserve greater exposure outside Ontario, as do domestic table wines, beers and spirits. Our government, the industry and the LCBO are pleased to have played a role in expanding export opportunities, and will continue to do so.

Taxpayers, citizens and users of government services expect – in fact, demand – that these services be delivered in the most efficient manner possible. With this in mind, our government has encouraged the LCBO to become more cost-effective and efficient, and this Annual Report shows the LCBO is responding.

As Minister responsible, I, along with my colleagues in government and staff, will continue to work closely with the LCBO Board, employees and trade partners to ensure this public asset is well managed and the Ontario public is well served.

Sincerely,

Norm. Sterling

Norman W. Sterling

*Minister*
*Ministry of Consumer and Business Services*

# Chair's message

I am pleased to report that fiscal 2000-2001 was another great success for the LCBO – our sixth straight record year. We recorded the highest net sales in our history: more than $2.7 billion, 7.1 per cent higher than the previous year. That we achieved this growth over the millennium year – the celebration of the century – is a tribute to all LCBO employees, in stores and behind the scenes.

Thanks to their efforts, and aided by effective retailing and merchandising and a robust economy, we also recorded the highest dividend transfer in our history: $850 million to the provincial government. That is $50 million more than last year and $200 million more than my first year as Chair and CEO in fiscal 1990-1991.

We also collected $255 million in Provincial Sales Tax in fiscal 2000-2001, which means the LCBO gave its owners – the people of Ontario – a total of $1.105 billion. This is the third straight year our combined dividend and tax contribution has topped $1 billion.

I am also proud that our Retail employees challenged more than one million customers in fiscal 2000-2001, because they appeared to be intoxicated or could not prove they were of legal drinking age.

When I took the helm at the LCBO in 1991, it had just begun its transformation from control-oriented bureaucracy to progressive, customer-focused retailer. In the 10 years since, the LCBO has changed tremendously – for the better, I think our customers would agree.

A great deal of the credit goes to Larry Gee, our Executive Vice President and Chief Operating Officer. Since his arrival at the LCBO in 1988, Larry has imbued the organization with his passion for excellence in retailing, and has steadily guided it according to his vision of what the LCBO could be. Unfortunately for the LCBO, Larry is scheduled to retire in fiscal 2001-2002. We have begun the search for his replacement, with internal and external candidates to be considered, but his skill, vision and commitment won't be easily replaced.

We are fortunate to have a strong senior management team; experienced Board Members who understand both the opportunities and risks an organization such as ours faces; a supportive government; and innovative trade partners who work with us to provide Ontarians with products to suit every budget and taste.

As much as the LCBO has reinvented itself over the past decade or so, the need for further change is clear. We must continue to invest in all aspects of our business to make it more responsive and efficient, while maintaining our strong commitment to social responsibility. We must control expenses even as sales continue to grow. Last year, in our drive to provide outstanding customer service, we spent more than planned on retail salaries. This year, and in the years ahead, we're looking at ways to increase customer satisfaction while keeping our expenses in check. Through our supply chain initiative, we are now testing measures to reduce stock handling, for example, which would free up staff to spend more time putting their product knowledge to good use with customers.

We will continue to invest in renovating and relocating stores, to provide customers with more appealing and informative places to shop. Past investments in our retail system have made a significant contribution to our profitability. We'll continue to train frontline employees, with the goal of making each one a customer service specialist, and every customer an informed shopper. We plan to upgrade our point-of-sale system, which requires greater functionality to speed up customer transactions and better reflect today's complex, fast-paced retail environment. We also plan to expand and upgrade our Durham Logistics Facility. While Logistics employees have improved productivity in recent years, moving more cases per hour at a lower cost, the fact remains that our annual net sales have increased by more than $1 billion since Durham opened in 1985. A significant investment is required if it is to handle the greater number of cases that now move through the system.

By continuing to invest in our future, we believe we can grow the business again in fiscal 2001-2002, to net sales of $2.838 billion. While our projected growth rate of just under 5 per cent is lower than in recent years, it is still aggressive given the anticipated slowdown in the economy. But the LCBO has consistently exceeded the growth rates of most Canadian liquor jurisdictions, and of the Ontario and Canadian retail sectors, and we believe we can do so again in fiscal 2001-2002.

Effective July 3, 2001, the LCBO no longer regulates the way other beverage alcohol retailers operate in Ontario. Up until that date, we had responsibility for regulating Beer Stores, Ontario winery retail stores, and on-site brewery stores and distillery stores in terms of their locations, hours of operations and merchandising practices. The Alcohol and Gaming Commission of Ontario now fulfills this role, and also regulates the private delivery of alcohol. This change allows us to focus on providing the public with responsible, knowledgeable, compelling customer service.

Retailing in the new millennium is all about making life easier for time-starved customers, and providing them with the information they need to make informed shopping decisions.

Whether they are looking for the right wine to match tonight's meal; seeking out a gift for a friend or family member; planning a wedding or other large gathering; or simply eager to learn more about beverage alcohol, today's LCBO is determined to become their Source for Entertaining Ideas. And we will do so while upholding our high standard of corporate citizenship, through our Challenge and Refusal Program, our social responsibility advertising campaigns and our fundraising on behalf of MADD Canada and other organizations.

Our employees helped us meet these goals in fiscal 2000-2001, and I am confident they will do so again in the fiscal year ahead.

Andrew S. Brandt
*Chair and CEO*

*Toronto, Ontario*
*August, 2001*

# The LCBO at a glance

*Customer Service Representatives Ted Felora, Rosa Matallo, Dave Burley, Pragya Jain and Keith Moxam, of the LCBO Queens Quay store in downtown Toronto.*

The Liquor Control Board of Ontario regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 601 stores across Ontario. Through this integrated distribution and retailing network, some 6,500 quality products are available to consumers, including wine, beer, spirits, coolers and accessories.

The LCBO also operates four VINTAGES stores, which offer consumers a wide selection of fine wines and premium spirits. VINTAGES products are also available in 12 VINTAGES boutiques and over 150 sections in regular LCBO stores. They can also be ordered through any LCBO outlet. Hundreds more premium products can be ordered from each edition of the VINTAGES *Classics Catalogue*, which is published three times a year.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 107 agency stores in communities without large enough population bases to support regular LCBO stores.

In the interests of consumer protection, the LCBO conducted some 330,000 tests on 13,785 different alcoholic beverages this year. This Quality Assurance testing helps ensure that all products sold by the LCBO and Brewers Retail stores comply with the federal *Food and Drugs Act*, as well as the LCBO's high standards for quality and taste.

For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: www.lcbo.com (our corporate home page), and www.vintages.com (the VINTAGES home page).

# Corporate governance

## Our mission

The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. (The authorization previously given by the LCBO for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.)

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated or who are believed to be buying for either of these parties
- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As an operational enterprise of the provincial government, we are not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Consumer and Business Services

- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through Orders-in-Council, on the recommendation of the Premier and Minister of Consumer and Business Services. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual fiduciary responsibility for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

## Strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee up to the senior vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see The Five-Year Plan in Beyond the Numbers 2000-2001: Management's discussion and analysis of operations.

## Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews and makes recommendations to Board Members on the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management

- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Members of the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

The Committee meets at least twice a year.

## Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March, 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April, 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## Health and safety

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

## Store Planning and Development Committee

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

## Listings Committee

This is a staff committee which reports to the Board. It reviews all recommended General List applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the delisting of certain products. The Committee normally meets quarterly.

## Listings Appeals Committee

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and delisting beverage alcohol products and makes recommendations to the Board. The Committee meets quarterly.

## Relationship with government

In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

# Glossary of LCBO terms

**Agency stores:** operated by established retailers in communities without the population to support regular LCBO or Beer Stores. At the end of fiscal 2000-2001, there were 107 agency stores, most in Northern Ontario.

**AIR MILES Rewards:** a loyalty program operated in Canada by Loyalty Management Group Canada Inc. that allows participating LCBO customers to earn travel and other rewards – such as movie passes, car rentals or long distance calls – by making purchases from the LCBO and other participating sponsors. AIR MILES is a trademark of AIR MILES International Holdings N.V., used under licence by Loyalty Management Group Canada Inc.

**Alcohol and Gaming Commission of Ontario (AGCO):** a regulatory body of the Ontario government responsible for the administration of the *Gaming Control Act*, the *Liquor Licence Act* and the *Wine Content and Labelling Act*. Among other things, it regulates the sale and service of liquor in licensed premises and at Special Occasion Permit events. The authorization previously given by the LCBO for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and private liquor delivery was transferred to the AGCO July 3, 2001.

**Brewers Retail Inc. (BRI):** a private company owned by three Ontario brewers (Labatt, Molson and Sleeman), which sells domestic and foreign beer and related merchandise through 431 Beer Stores located in 231 communities across Ontario.

**Brewery store (on-site):** a retail store operated by a brewer at its manufacturing site. There are 36 on-site brewery stores.

**BYID (Bring Your Identification) card:** a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and BRI stores and licensed establishments. Cards can be obtained with proper identification and a $15 fee. Applications are available at all LCBO stores.

**Challenge and Refusal:** an LCBO social responsibility program in all stores that helps ensure beverage alcohol is not sold to minors, to persons who appear intoxicated, or to anyone making purchases on behalf of these two groups.

**Check 25:** an LCBO social responsibility program whereby anyone appearing to be under the age of 25 is routinely asked for identification by Retail staff.

***Classics Catalogue*:** published three times a year by VINTAGES, each edition offers hundreds of premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

**Combination or "combo" stores:** these sell a full variety of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Beer Stores. Regular LCBO stores mainly sell six-packs of selected domestic and imported beer.

**Consignment Warehouse:** a program that allows agents/suppliers to bring products not regularly sold at LCBO retail stores to an LCBO warehouse to be held for sale. Licensed suppliers' agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

**CSR:** an LCBO Customer Service Representative, trained to offer helpful, knowledgeable and socially responsible service.

**Distillery store (on-site):** a retail store operated by a distiller at its manufacturing site. There are three on-site distillery stores.

**Duty-free shop:** a retail shop located at an international airport in Ontario, or a bridge, tunnel or land-border exit from Ontario, licensed by the Canada Customs & Revenue Agency to sell items free of duties and taxes, and authorized by the LCBO to sell beverage alcohol. Duty-free shops are privately operated and regulated, as regards the sale of beverage alcohol, by the LCBO.

**Embassy or Official Government Sales Discount:** a discount on beverage alcohol provided by the LCBO to foreign embassies, consulates, trade missions and other diplomatically staffed foreign institutions recognized as such by Foreign Affairs and International Trade Canada. They may purchase imported beverage alcohol products through the LCBO's Private Ordering Department at a discount for official use within the institutions, comparable to discounts that foreign governments provide to Canadian diplomatic institutions abroad.

**Flavoured wine drinks:** varietal wines mixed with essences of fruit and/or lightly carbonated.

***FOOD & DRINK*:** the LCBO's free magazine, published six times a year to help customers entertain responsibly and with ease.

**Fortified wine:** wine such as Port, Sherry and Madeira, whose alcohol level has been "fortified" by the addition of spirits.

**General List:** a list of products regularly available in LCBO stores.

**Icewine:** a dessert wine made from grapes – most often Vidal or Riesling – left on the vine until they freeze solid. Once the grapes are picked, ice crystals are removed, leaving behind an intensely sweet, concentrated juice often called "liquid gold." Ontario Icewines are widely considered the best in the world, winning award after award in open competitions.

**IMAGE program:** provides LCBO suppliers the opportunity to purchase display space to promote their products in selected stores during 13 four-week periods.

**LCBO Private Stock Program:** enables LCBO customers to obtain beverage alcohol products that may not be listed for sale in LCBO retail stores. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

**Licensee:** the holder of a licence to sell beverage alcohol to the public at licensed premises, issued by the Alcohol and Gaming Commission of Ontario under the *Liquor Licence Act*.

**Limited Time Offers (LTOs):** month-long price discounts of up to 20 per cent on selected beverage alcohol products.

***Liquor Control Act*:** provincial legislation passed in 1927 that gives the LCBO broad powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

**Microbrewery:** a brewery that produces less than 100,000 hectolitres of beer annually.

**POS:** the point-of-sale system used in LCBO stores. It helps speed up every sales transaction in LCBO stores; transmits vital information on inventory movement to Head Office; and facilitates debit/credit authorization and other interfaces with financial institutions. New full-screen displays also help promote customer services, such as the AIR MILES Rewards program, and transmit social responsibility messages.

**Product consultants:** LCBO employees whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol. As of March 31, 2001, there were 129 product consultants in our stores.

**Product Knowledge Correspondence Course:** a three-level employee training program mandatory for all LCBO Retail staff. The program is also available to the public at a cost of $80. CD-ROM versions of Levels I and II are now available; Level III is in development.

**Quality Assurance:** the department of the LCBO responsible for testing products for safety and analytical purposes. It also conducts chemical tests and taste assessments for outside agencies, such as other beverage alcohol regulators or retailers or the Vintners Quality Alliance [see VQA ] and assists in confirming whether products seized by enforcement agencies were illegally manufactured or smuggled into Ontario.

**SMAART (Strategies for Managing Age and Alcohol-Related Troubles):** LCBO's comprehensive video-based training program designed to educate staff about responsible service and related judgment calls, alcohol issues and how to handle problem customers. All employees who serve the public are required to take SMAART training.

**Source for Entertaining Ideas:** the brand vision of the LCBO, designed to position the organization in the eyes of customers – and employees – as the place where Ontarians can find a full range of products and services to help them entertain easily and responsibly.

**Special Occasion Permit:** a one-time permit issued under the *Liquor Licence Act* by the AGCO and available in selected LCBO stores. It allows holders to serve or sell beverage alcohol at a specific location which is not a licensed establishment or a private place or residence.

**Spirit cooler:** a mixture of spirits and soft drinks or fruit juices. Wine- and beer-based coolers are also sold in LCBO stores.

**Strategic scorecard:** a strategic management tool the LCBO uses to gauge its progress against targets in key areas such as customer satisfaction, social responsibility and financial performance.

**Supply chain management:** this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

**U-Brew/U-Vint/U-Ferment:** privately operated service outlets, licensed and regulated by the AGCO, that provide customers with ingredients, equipment and expertise to make their own beer or wine at the shop.

**Value-adds:** bonus items attached by suppliers to a liquor product sold in LCBO stores.

**Varietals:** wines made from particular grape varieties, as opposed to blends. Well-known red varietals include Cabernet Sauvignon and Merlot; popular white varietals include Chardonnay, Sauvignon Blanc and Riesling.

**VINTAGES:** the fine wine and spirits division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or niche market interest.

**VQA:** Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines of superior quality that meet strict wine-making and taste standards, modeled on "Appellation of Origin" systems used in other wine-producing countries. VQA legislation has replaced the voluntary system in place since 1988.

**VQA Ontario:** a non-profit corporation designated by the provincial government under the VQA legislation to control the use in Ontario of specified terms, descriptions and designations of wine, and to set quality standards for wines to which these terms, descriptions and designations are applied.

**Wholesale channel:** refers to the LCBO's sale and distribution of liquor to liquor retailers such as licensees, BRI, agency stores and duty-free stores.

**Winery retail store:** a retail store operated by an Ontario winery. There are two types of winery retail stores: "on-site" stores at the winery that may sell only wine made by the winery at that location, and "off-site" stores that may sell only wine made by the winery. Due to international trade agreements, the number of "off-site" stores is capped. There are a total of 364 winery retail stores in Ontario.

**WOW 2000 – From Vines to Wines:** a training program designed by the LCBO and trade partners to increase employees' knowledge of Wonderful Ontario Wines (WOW). It gave every LCBO employee the opportunity to visit Ontario wineries, to see first hand how domestic wines are made.

*The LCBO senior management team. Front row, from left to right: Bill Kennedy, Executive Director, Corporate Communications; Jackie Bonic, VP Store Development & Real Estate; Nancy Cardinal, VP Marketing Communications; Larry Gee, EVP & COO; Mary Fitzpatrick, Senior VP, General Counsel & Corporate Secretary; Barry O'Brien, Director, Corporate Affairs. Back row: Ian Martin, Senior VP Logistics; Gar Sherwood, Senior VP Retail; Hugh Kelly, Senior VP Information Technology; Murray Kane, Senior VP Human Resources; Tom Wilson, VP VINTAGES; Larry Flynn, Senior VP Merchandising.*

*Absent: Alex Browning, Senior VP Finance & Administration; Gerry Ker, Director, Corporate Policy; Shelley Sutton, Director, Strategic Planning.*

# Beyond the numbers 2000-2001

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This section of the report explains the financial results of the LCBO for the past year and provides background for evaluating its performance. Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government operational enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

### Highlights (value in $000s)

| | 1999-2000 | 2000-2001 |
|---|---|---|
| Dividend to government | $800,000 | $850,000 |
| Net sales and other income | $2,549,458 | $2,734,937 |
| Per cent increase | 8.5 | 7.3 |
| Operating expenses | $414,861 | $468,090 |
| Net income | $845,694 | $876,272 |
| Per cent increase | 4.5 | 3.6 |

### Higher dividend to government for the seventh straight year

We transferred a record $850 million dividend to government in 2000-2001, a $50 million increase over last year. This is the seventh straight year we've increased our dividend.

The following table gives a 10-year history of the LCBO dividend to the province of Ontario.

The dividend hit a low of $585 million in 1993-1994 but has been steadily increasing ever since. This can be attributed to LCBO retailing and merchandising initiatives such as new store formats and store improvements, a dynamic product portfolio, staff training, application of technology, integrated marketing, the introduction of debit/credit cards, AIR MILES Rewards and year-round Sunday openings, as well as overall improved economic conditions.

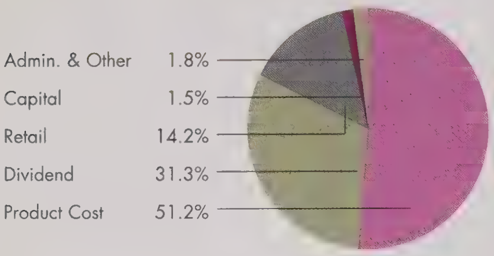
### Billion dollar payout

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $255 million in 2000-2001. If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the third straight year, giving our owners – the Government of Ontario – a total of $1.105 billion. This is just over 6 per cent more than last year. The LCBO also remitted $79 million to the federal government in GST and $3.7 million in property taxes to municipal governments.

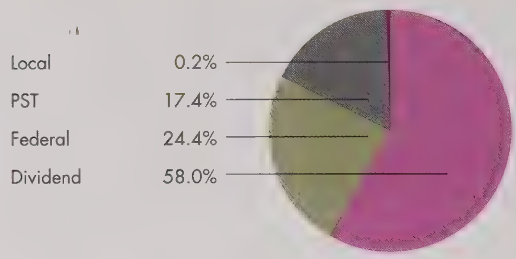
The charts on the next page show the breakdown of $1 in net sales, and how LCBO profits are shared between various levels of government.

| Dividend | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($000,000s) | $675 | $615 | $585 | $630 | $680 | $730 | $745 | $780 | $800 | $850 |

**Breakdown of $1 in net sales**




**LCBO Payments to Government**




## Sales set new record

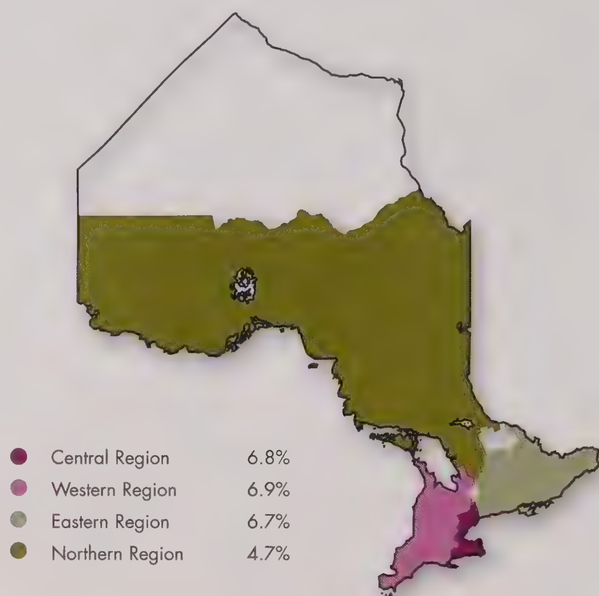
Against a background of strong consumer confidence and a robust Ontario economy, and despite a cool and wet summer season, LCBO net sales rose $180.7 million last year, or 7.1 per cent, to $2.714 billion.

The LCBO, along with the Société des Alcools du Québec (SAQ), continues to lead liquor jurisdictions in Canada in volume and value growth. LCBO volume sales grew by 6.2 per cent (SAQ 5.8 per cent) while dollar sales grew by 7.1 per cent (SAQ 8 per cent). A portion of the SAQ's growth was driven by aggressive discounting and a significant expansion of its store network.

On a broader national level, total retail-sector sales grew 5.3 per cent between 1999-2000 and 2000-2001. According to Statistics Canada, Ontario outperformed the national average with retail sales growing by 6.9 per cent. LCBO efforts have produced a sales increase of 7.1 per cent, outperforming total retail sales growth on both the national and provincial levels.

## Sales growth strong in all LCBO retail regions

All four LCBO retail regions experienced strong sales growth in fiscal 2000-2001, as the following map shows.



## Retail and wholesale sales both strong

For comparative purposes across sales channels, including retail and wholesale channels which are subject to different discount programs and taxes, gross retail sales (including all taxes) are compared. LCBO retail sales, which we define as sales to home consumers, grew by 6.9 per cent over last year and account for 80.4 per cent of the LCBO's total gross sales, amounting to $2.56 billion.

Gross sales through wholesale channels also grew strongly last year, by 7.8 per cent. Ontarians continue to enjoy eating out and patronizing licensed establishments, as reflected in the 5.8 per cent increase in LCBO sales to licensees, accounting for 13.2 per cent of total LCBO gross sales. Sales to Brewers Retail Inc. (BRI) increased by 17.3 per cent, highlighting the continuing growth in the sale of imported beer. Sales to BRI accounted for 4.1 per cent of total LCBO gross sales. Sales to agency stores accounted for 1.1 per cent of total sales while sales to duty-free operators accounted for 1.1 per cent of total sales in fiscal 2000-2001.

In all, wholesale sales accounted for 19.6 per cent of total LCBO sales, up from 17.9 per cent five years ago.

## LCBO in shared marketplace

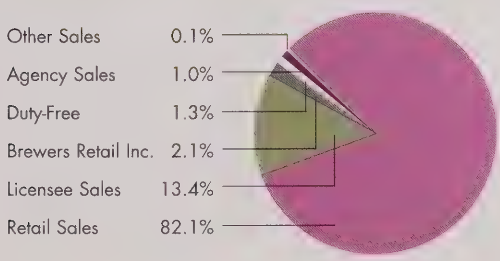
The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including BRI, Ontario winery retail stores, on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. There are currently 1,557 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2001 (percentages have been rounded):

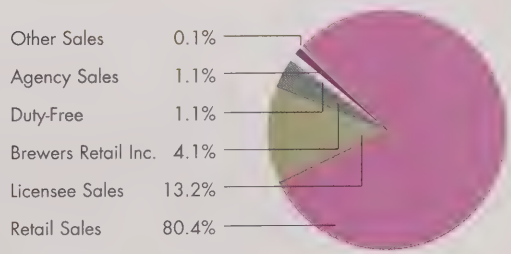
- 601 LCBO stores (39 per cent of all outlets)*
- 431 Brewers Retail stores (28 per cent of all outlets)
- 364 Ontario winery retail stores (23 per cent of all outlets)
- 107 agency stores (7 per cent of all outlets)
- 36 on-site brewery stores (2 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 4 airport duty-free stores (0.2 per cent of all outlets)
- 3 on-site distillery stores (0.1 per cent of all outlets).

*If you combine the LCBO's 601 stores and Ontario's 107 agency stores, their market share of retail outlets is approximately 45 per cent.

### Breakdown of LCBO Sales 1996-1997




### Breakdown of LCBO Sales 2000-2001

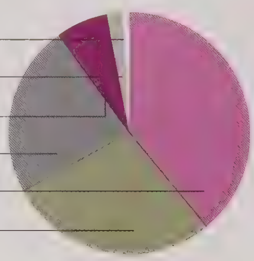


## Changes in market share

The total Ontario beverage alcohol marketplace amounted to approximately $7.2 billion in gross sales in 2000-2001. The LCBO's market share by value has risen from 38.8 per cent in 1996-1997 to 44.2 per cent in 2000-2001. Winery retail store sales have maintained a market share of 2.1 per cent since 1996-1997. BRI's market share decreased from 34.3 per cent in 1996-1997 to 33.2 in 2000-2001.

By volume, LCBO's market share rose 6.6 percentage points between 1996-1997 and 2000-2001, from 21 per cent to 27.6 per cent. Winery retail stores increased their market share from 2.2 per cent to 2.4 per cent over the same time period, while BRI fell from 67 per cent to 64.6 per cent.

**LCBO percentage of market share (by number of outlets)**




## U-Brew and U-Vint market

In 2000-2001, the U-Brew and U-Vint market is estimated to have fallen in market share from 11.3 per cent in 1999-2000 to 10.9 per cent in 2000-2001, just slightly higher than its 1996-1997 share of 10.8 per cent. Although the number of U-Brew and U-Vint establishments continues to grow in the province, the customer service, marketing and product knowledge efforts of the LCBO, winery retail stores and BRI appear to have repatriated a portion of the market share of this channel.

## Illegal competition

Since 1993-1994, the estimated size of the illegal market in Ontario has been falling steadily. In 2000-2001, illegal alcohol accounted for an estimated $406 million in sales, or approximately 5.7 per cent of the total Ontario beverage alcohol market. This is down from the estimated $456 million or 6.6 per cent in 1999-2000, and the estimated $620 million or 10.3 per cent market share in 1996-1997. This decline is due largely to continuing public education about the health risks of consuming illegal alcohol; customer service initiatives – such as Sunday openings, credit/debit card payment options and upgraded store formats – that have helped draw customers back to legal channels; and the efforts of law enforcement agencies to curb this problem.

# Income statement

## Net income up $30.6 million

Net income for fiscal 2000-2001 was $876 million. This was more than $30 million higher than last year, representing a 3.6 per cent increase.

The net-income-to-net-sales ratio was 32.3 per cent, just short of the 2000-2001 target of 33.5 per cent.

Our expense-to-net-sales ratio was originally forecast at 16.2 per cent but came in at 17.2 per cent in fiscal 2000-2001. More detail is provided in the section on productivity ratios.

The net sales growth of 7.1 per cent was impressive, especially in light of last year benefiting from the millennium celebrations. However, it did not meet the aggressive target of 8.2 per cent set at the end of last year because of a poor summer in terms of wet and cool weather, which had a dampening effect on sales of beverage alcohol.

## Gross margins

Gross margin as a percentage of net sales for 2000-2001 was 48.8 per cent, slightly below last year's 49.1 per cent, and below the target of 49.2 per cent. The margin decline reflects the continuing shift in the product mix away from spirits and towards beer and wine. For every dollar of net sales, our gross margin return on spirits is $0.57. On wine, it is $0.50 and on beer $0.32. Beer and wine now represent 51 per cent of total net sales, up from 50 per cent last year and 47 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever greater proportion of our incremental sales dollars comes from the sale of lower-margin products.

The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

## Productivity ratios

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the store-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary expenses-to-sales ratio means that staff are becoming more productive.

*Productivity increased and the cost per case handled decreased this year at Durham Logistics Facility, which moves some 30 million cases of beverage alcohol a year. Left to right are Warehouse Worker Tim Anderson; Director Bruce Pizzolato; Warehouse Worker Eddy Tham; Warehouse Worker Joe Sousa; Warehouse Receiving Clerk Pauline Graham; and Vic Araujo, General Manager, Operations.*

The LCBO did not meet certain retail productivity targets set at the end of fiscal 1999-2000. A number of unforeseen factors affected the expenses of operating the retail network. In our drive to provide compelling customer service, particularly at holiday time when customers seek more advice on products, and enhanced services such as gift wrapping, we did not achieve optimum staffing levels. We have taken note of this and are making adjustments where possible to bring expenses under control. Also, under a new collective agreement, the pay rate for unionized casual staff on Sundays was increased, as was the rate paid on Christmas Eve and New Year's Eve to regular employees. These increased staffing requirements and salary costs resulted in missed targets. However, sales performance was excellent, as indicated by the overall increase in total sales and income, and the increases in the sales-value-per-customer and the sales-per-square-foot productivity ratios.

From the logistics side of the business, four of the seven productivity targets were met or bettered. Only the freight productivity ratios were slightly off target (although in line with last year), owing to increased fuel charges, increased container traffic and increased deliveries to the store system.

**Store salaries to sales:** Both the number of staffing hours and the rate at which employees were paid were underestimated in fiscal 2000-2001. As a result, we missed our target of 7.2 per cent, coming in at 7.9 per cent.

**Store expenses as a percentage of sales:** Store expenses increased owing to the higher salary costs noted above, and to higher-than-expected lease costs, utilities and property taxes. This resulted in a ratio of 11 per cent, missing the target of 9.9 per cent.

**Store salary per unit sold:** Increasing salary costs resulted in our missing the target of $0.79, coming in at $0.87.

**Store expenses per unit sold:** The target of $1.09 was missed, coming in at $1.22. This reflects the increases in the store-expenses ratio.

**Unit sales per hour:** Came in at 25.5, missing the target of 27.9. This reflects the higher than budgeted staff hours in the retail system.

**Sales per customer:** Up from last year's $27.19 to $27.86, but missed the target of $28.81.

**Sales per square foot:** Up from last year's $1,674 to $1,693, exceeding the target of $1,680.

**Retail – Financial & Operating Highlights**

| | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 |
|---|---|---|---|---|---|
| Store salaries to sales | 8.0% | 7.8% | 7.8% | 7.6% | 7.9% |
| Store expenses as % of sales | 11.1% | 10.8% | 10.6% | 10.5% | 11.0% |
| Store salary per unit sold | $0.86 | $0.84 | $0.85 | $0.84 | $0.87 |
| Store expenses per unit sold | $1.19 | $1.16 | $1.16 | $1.17 | $1.22 |
| Unit sales per hour | 24.5 | 25.4 | 25.8 | 25.7 | 25.5 |
| Sales per customer | $25.28 | $25.75 | $26.19 | $27.19 | $27.86 |
| Sales per square foot | $1,365 | $1,452 | $1,546 | $1,674 | $1,693 |

**Salary cost per case:** Met the $0.73 target, matching last year's value.

**Warehouse cost per case:** Bettered the target of $0.92 and bettered last year, coming in at $0.90.

**Logistics cases per hour:** Bettered both the target of 62 and last year's 61, coming in at 63 cases per hour.

**Logistics cost per case handled:** Decreased by $0.02 per case compared to last year and compared to target, surpassing expectations.

**Freight expense per case:** Slightly above the target of $1.15 at $1.16.

**Inbound freight as a percentage of sales:** The same as 1999-2000 at 2 per cent but slightly below the target of 1.9 per cent.

**Outbound freight as a percentage of sales:** The same as 1999-2000 at 0.6 per cent but slightly below the target of 0.5 per cent.

### Logistics – Financial & Operating Highlights

| | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 |
|---|---|---|---|---|---|
| Salary cost per case | $0.82 | $0.74 | $0.74 | $0.73 | $0.73 |
| Warehouse cost per case | $1.10 | $0.98 | $0.91 | $0.93 | $0.90 |
| Logistics cases per hour | 51 | 55 | 59 | 61 | 63 |
| Logistics cost per case handled | $0.70 | $0.63 | $0.58 | $0.59 | $0.57 |
| Freight expense per case | $1.22 | $1.15 | $1.07 | $1.13 | $1.16 |
| Inbound freight as % of sales | 2.1% | 2.0% | 1.9% | 2.0% | 2.0% |
| Outbound freight as % of sales | 0.5% | 0.5% | 0.5% | 0.6% | 0.6% |

## Expense targets

The administrative expense ratio fell from 1.5 per cent in 1999-2000 to 1.3 per cent in 2000-2001. This is below the target of 1.4 per cent set for the fiscal year.

Operating expenses increased by $53.9 million in 2000-2001. The increase in operating expenses reflects enhanced customer service initiatives, such as free gift wrapping, and additional staff required to meet the demand for product knowledge and advice that customers are seeking. The additional retail staff requirements, coupled with their additional salary costs, led to the increase in operating expenses.

Operating expenses as a percentage of net sales grew from 16.3 per cent in 1999-2000 to 17.2 per cent in 2000-2001.

## Other income

This category includes items such as parking revenues, Special Occasion Permits, airline markups and investment income. Other income in fiscal 2000-2001 was $20 million, up from last year's $15.8 million.

# Balance sheet

## Liabilities

Liabilities, consisting of accounts payable, rose from $221.2 million in 1999-2000 to $249.4 million in 2000-2001.

## Year-end inventory

Year-end inventory was up from $255.4 million in 1999-2000 to $260.6 million in 2000-2001. Total inventory turns rose from 5.2 in 1999-2000 to 5.3 in 2000-2001, just under the target of 5.4.

## Changes in our financial position

Our cash position increased from $31.1 million in 1999-2000 to $48 million at the end of 2000-2001.

## Capital Expenditures

(values in $000s, numbers rounded)

| | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 |
|---|---|---|---|---|---|
| Retail | 8,110 | 13,008 | 17,730 | 23,112 | 39,984 |
| Information Technology | 8,720 | 8,472 | 17,834 | 24,895 | 7,375 |
| Logistics | 782 | 1,213 | 1,658 | 1,760 | 2,066 |
| Marketing Programs | 1,554 | 1,989 | 2,558 | 2,434 | 1,231 |
| Other Administrative Divisions | 248 | 917 | 1,179 | 1,463 | 2,409 |
| Systems Improvements | N/A | N/A | N/A | 808 | 2,624 |
| Total Capital Expenditures | 19,414 | 25,599 | 40,959 | 54,472 | 55,689 |

Most capital expenditures occur at the retail level, as we continue to upgrade and improve retail outlets in keeping with our five-year strategic plan of making the LCBO the Source for Entertaining Ideas.

The slight increase in capital spending between 1999-2000 and 2000-2001 reflects the LCBO's investment in needed improvements in the retail system, including updating the point-of-sale system in stores.

## Continuous innovation

Our success as a retailer is due to continuous innovation. In the past year we introduced new products and services and increased staff knowledge to better service our customers. We have also tailored new stores to better suit their markets. Our number one goal is to provide compelling customer service.

## The five-year plan

To meet our goal, we've developed a five-year capital strategy to allow us to:

- continue to succeed in the changing beverage alcohol market
- increase customer satisfaction and remain the beverage alcohol retailer of choice
- maximize returns to Ontario taxpayers by generating increased dividends to the Ontario government.

Fiscal 2000-2001 was the third year of the current five-year plan. The original plan calls for $251 million in capital spending over five years with just over 95 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of $841 million each year under the plan, or transfers of $4.2 billion over the five years.

## Looking ahead

Sales for fiscal 2001-2002 are forecast to increase by 4.6 per cent or $124.2 million to $2.84 billion. The forecast in net sales is more conservative than for fiscal 2000-2001, reflecting the probability of a slowing of the provincial economy.

As we enter the fourth year of the plan in 2001-2002, we look to the past year to identify areas for improvement, focusing on the cost side. To better control salary costs in the next fiscal year, a review of scheduling for staff hours will be undertaken, and summaries of staff hours by all staff members will be consolidated and reviewed on a weekly basis.

Our product costs as a percentage of net sales are projected to rise slightly from 51.2 per cent in 2000-2001 to 52 per cent in 2001-2002.

Volume sales are expected to increase by 2.8 per cent next year. Gross margin is expected to continue its decline under the combined market pressures of a changing mix of product and flat markup rates, and come in at 48 per cent. This will drive net income down to 31.3 per cent of net sales as net income increases slightly by 1.3 per cent from $876 million to $888 million.

Our dividend to the Government of Ontario should increase for the eighth consecutive year to $875 million, up by $25 million or 2.9 per cent. Having achieved an $850 million dividend in fiscal 2000-2001, we have now transferred an additional $99 million over plan in the first three years of the current five-year plan.

Our expense-to-net-sales ratio was originally forecast at 16.2 per cent but came in at 17.2 per cent in fiscal 2000-2001. This ratio is forecast to come in at 17 per cent in 2001-2002, as a result of cost containment and efficiency measures.


*Many LCBO stores now offer attractive gift displays and free gift wrapping. Advertising and in-store displays remind Ontario consumers the LCBO is a convenient gift source for holidays, birthdays and other occasions. As a result of these marketing efforts, and strong support from our suppliers, gift sales rose 51 per cent last year to $74 million.*

# Long-Term Strategic Plan 1998 - 2003

**MISSION**

**The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.**

**BRAND VISION**

**THE SOURCE FOR ENTERTAINING IDEAS**

**PERSONALITY**

| | | | | |
|---|---|---|---|---|
| Knowledge Source | Fun | Inspiring | Friendly | Caring |

**OBJECTIVES**

1. To increase customer satisfaction.
2. To promote the responsible use of beverage alcohol.
3. To maximize returns to Ontario taxpayers by generating a total of $4.2 billion in dividend transfers over five years.

**STRATEGIES**

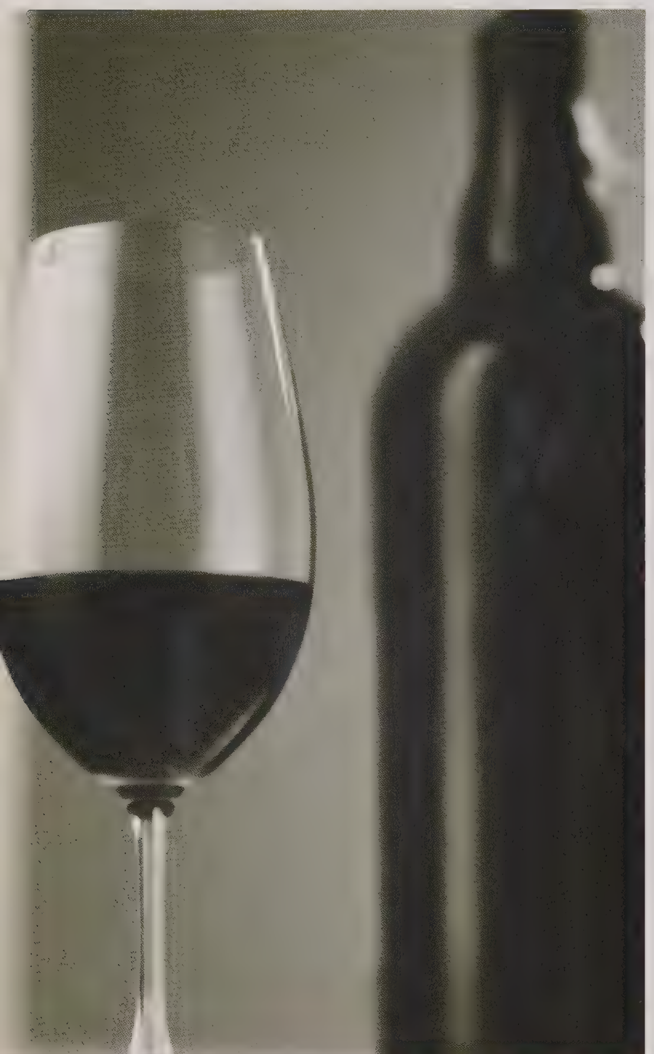
1. Define, develop and implement Compelling Customer Service.
2. Implement a Whole Branding Strategy.
3. Provide seamless service at the lowest cost while maximizing productivity and customer satisfaction.
4. Invest in technology as an enabler.
5. Have the right people in the right place with the right attitude and skills.
6. Target customers who provide the greatest returns.
7. Secure the support of key stakeholders, particularly those who look to the LCBO for leadership in social responsibility.

**COMPETITIVE ADVANTAGE**

***Knowledge drives information and entertainment, which deliver compelling customer service***

# Wines

**MISSION: TO PROVIDE OUR CUSTOMERS WITH AN EXCEPTIONAL SELECTION OF QUALITY WINES AT AFFORDABLE PRICES.**



The Wines Category continued to grow despite the return of Champagne sales to pre-millennium levels, with value sales rising 4.5 per cent to $733 million.

Three key segments pushed this growth, according to Category Director Tamara Burns: red wine, premium price bands and wines from Australia.

## Hot down under

"Australia is now a marquee player in the Ontario market," says Burns.

Australia benefits from an overall trend toward New World wines, which now account for 55 per cent of Wines Category sales, compared to 48 per cent in 1995. Their growth can be attributed to consumer preferences for red wines – especially varietals, which are made mostly from a single grape variety that is identified on the label – and for wines in premium price bands that offer good value for money.

Litre sales of Australian reds grew by 44 per cent and were especially strong in the $10 to $15 price band, growing by 50 per cent.

Especially popular were wines made from the grape Shiraz – known as Syrah in France and California.

Australian whites did well too, with litre sales growing by 17 per cent. Many producers of popular Australian reds also make good whites and customers are willing to try them, based on their positive experiences with the reds.

White wines in general are holding their own, Burns notes, increasing slightly in volume (0.3 per cent) and value (0.8 per cent) over last year. "Given how popular reds are right now, any increase in whites is impressive."

Reds now hold 43 per cent of the Ontario wine market in value sales; whites hold 39 per cent; sparkling, fortified and other wines hold 14 per cent; and rosés 4 per cent. In 1995, by comparison, white wines held a 51 per cent share of the category.

## Imported wines

Apart from Australia, other countries that enjoyed strong growth in fiscal 2000-2001 included: the U.S. (up 8.1 per cent in value sales); Italy (6.8 per cent); South Africa (17.9 per cent); Argentina (18.2 per cent); and Chile (7.9 per cent).

Italy is virtually the only country in Europe whose volume sales are not declining. The trend to varietal wines has hurt European wines, many of which are regional blended table wines.

Sales of wines from France declined by 3.9 per cent in value, and its market share dropped by 1.9 per cent, although it remains the top-selling producer after Canada. "Not all areas of France were in decline," Burns points out. "Burgundy, for example, is up 13 per cent, due to the popularity of Beaujolais wines."

The countries enjoying the greatest success share an ability to deliver attractively packaged wines that offer good value for money, in a fruit-driven style customers enjoy.

## Domestic wines

Sales of domestic wines rose 1.1 per cent in value and 2.8 per cent in volume. But with the stronger growth exhibited by Australia and others, these gains still led to a loss in market share.

The greatest successes in Ontario were the premium wines that bear the Vintners Quality Alliance (VQA) label, meaning they met strict wine-making and taste standards. LCBO value sales of VQA wines rose from $39 million to $43.7 million in fiscal 2000-2001, an increase of 12.1 per cent.

In general, Ontario Rieslings and Chardonnays did well this year, especially those Chardonnays made in a crisp, Burgundian style, with little or no oak ageing.

Ontario reds improve each year, but face tough competition from Australia and other New World producers, according to Burns. As cool-climate wines, which tend to be somewhat austere, they are not in line with current consumer taste for fruit-forward wines.

## Other trends

This past year saw Port sales rise by 27 per cent in volume and 35 per cent in value. Burns attributes the popularity of this Portuguese after-dinner wine to new product introductions; a popular promotion in October; and a strong lineup of gift items.

Rosés were up only slightly, by 0.2 per cent in dollars. The poor spring weather affected this segment, which is geared towards warm weather and outdoor entertaining.

Flavoured wine drinks – varietal wines mixed with essences of fruit or lightly carbonated – continued their upward trend, with sales doubling to $11.9 million. "They are proving popular with both men and women, and year-round, not just in summer," Burns says.

The trend toward varietals continues, with New World Shiraz/Syrah emerging as a new favourite, growing 67 per cent over last year. "Consumers also favour premium blends, such as Cabernet-Shiraz and Cabernet-Merlot," according to Burns. "They make for complex, interesting wines that showcase the winemaker's skill and appeal to the consumer's sense of discovery."

## Looking ahead

The Australian success story is expected to continue. For fiscal 2001-2002, LCBO will bring in approximately 40 new products from Australia, on top of the 85 already in the system.

Burns expects Chile to enjoy success with varietals for which it has not been previously known, including Syrah. She is also predicting growth in sales of wines from Italy, South Africa, New Zealand and VQA wines from Canada.

# Spirits

**MISSION: TO DEVELOP THE SPIRITS CATEGORY INTO THE MOST DYNAMIC, INTERESTING AND EASIEST TO SHOP CATEGORY AT THE LCBO.**

For the third straight year, value sales of spirits at LCBO rose significantly over the year before.

A 5.6 per cent increase followed gains of 4.8 per cent in fiscal 1999-2000 and 5.4 per cent in 1998-1999, bringing LCBO's spirits sales for fiscal 2000-2001 to $1.17 billion.

"Not that long ago, spirit sales were dropping by 5 per cent a year or more, due to changing consumer tastes, a recession, cross-border shopping and smuggling," notes Acting Category Director Shari Mogk-Edwards. "So these gains are extremely important to the LCBO – where spirits contribute more than 50 per cent of profits – as well as to our industry partners at home and abroad."

Among the factors that played a role this past fiscal year:

- LCBO retail employees know more about spirit products and are more comfortable discussing them
- suppliers have delivered appealing products, especially in premium price bands
- more customers embraced premium products
- improvements to the LCBO shopping experience have helped curtail demand for illegal products
- the weaker Canadian dollar has discouraged cross-border shopping.

Among the spirit success stories this year:

Imported whiskies have done particularly well, with value sales of single malt Scotches up 15.8 per cent; U.S. whiskey up 15 per cent; and Irish whiskey up 11.2 per cent. Canadian whisky rose 3.5 per cent; premium domestic brands have not done as well as premium imports.

Vodka continued to grow: regular vodkas were up 5.5 per cent while flavoured vodkas grew by 87.8 per cent, led by citrus-based brands such as Absolut Mandarin.

Liqueurs also did extremely well, especially fruit liqueurs – which are popular in summer – followed by coffee and nut/bean liqueurs. The segment grew by 8.6 per cent over last year, with sales to licensees particularly strong.

Cream liquors rose 16.3 per cent over last year, led by Bailey's Irish Cream, which has a strong brand following.

Rum and brandy both grew by 4 per cent, with most of the growth coming in premium price bands. Although gin sales were only up 1 per cent, Mogk-Edwards believes premium gin has tremendous upside, because "gin has a lot of flavour, and the better the gin, the better the flavour is likely to be. A greater increase may be two or three years away, but it should come."

Tequila was a fast-growing product until a global shortage took hold this fiscal year. This was due to a shortage of the Mexican blue agave plant from which tequila is made. While value sales only increased 0.47 per cent over last year, due largely to supplier price increases, volume sales are down more than 25 per cent year over year. LCBO is working hard to maintain supplies, which may not return to normal levels for four or five years, because of the long time it takes for an agave plant to reach maturity.

## Breakthrough sub-category

One breakthrough sub-category this year was "Exotic Fruit Juice Spirits," the best known of which is Alizé. With a combination of intriguing product and excellent packaging, these pre-mixed cocktails have grown 23.4 per cent this year to reach sales of $3.1 million.

Another growing niche business is grappa, sales of which rose 35.7 per cent to $1 million. Attractively packaged grappas were especially popular at holiday time.

In general, gifting continues to present the category with significant opportunities for growth. This year alone, sales of spirit-based gift-packs totaled $21.2 million. The most popular gift items contained Canadian whisky, cream liquor, liqueurs, brandy or Cognac.

"Improving our warehouse inventory turns was a major objective for us," says Mogk-Edwards. "We were successful with all our categories: domestic, imported and duty-free. In fact, our turns for domestic spirits have hit an all-time high. Last year we turned them 12.8 times and this year we achieved turns of 18.1, a whopping 41.4 per cent improvement. Such a turnover has huge economic benefits to the organization and resulted in an average cost reduction of $2.54 million per period."

## Looking ahead

There has been a great deal of consolidation in the beverage alcohol business in recent years. Mergers and takeovers have led to the creation of industry titans like Diageo PLC, Pernod Ricard SA and Brown-Forman Corp. Diageo PLC, the world's largest spirits company, grew even larger in 2000 when it and Pernod Ricard SA were the successful bidders for the Seagram drinks business following the merger of Vivendi SA and Universal.

"Mergers and acquisitions have affected the spirits category in the sense that the ownership of certain major brands, like Crown Royal, Absolut and Captain Morgan, have been in limbo, which impedes long-term business projections," notes Mogk-Edwards.

"We're dealing with a lot of unknowns, but we'll work with trade partners, as we always have, to offer our customers a range of products to suit every taste and budget."

Mogk-Edwards also worries that an economic downturn might hurt the business, especially in premium price bands. "There was some evidence of a downturn as our business plans for 2001-2002 were being drawn up. We may have to work a lot harder to achieve the same aggressive growth in the next fiscal year as we have the last three years."

# Beers & Special Markets

**MISSION: TO DELIVER THE ULTIMATE BEER EXPERIENCE.**

The cold, wet spring and early summer of 2000 affected the Beers & Special Markets category, but it rebounded strongly in the latter half of the year, ending the fiscal year with sales of $565 million, up more than 11 per cent over the year before. This growth – which led the LCBO – was a significant accomplishment given how poor the weather was at the beginning of the season, according to Category Director Randi Landy.

She attributes this growth to a general demand for more premium products; a strong economy for most of the fiscal year; increased promotional activities, such as a Wheat Beer promotion; the introduction of a Premium Specialty Beer Section and a customer base that grows as "echo boomers" – the children of the first wave of baby boomers – reach legal drinking age.

## The premium trend

The category's strongest performance came in beers imported from countries other than the U.S. – chiefly the Netherlands, Germany, Ireland and Poland. Brands such as Corona, Heineken, Becks, Guinness and Zywiec led this sub-category, which grew by 26 per cent over last year. "These premium beers tend not to be as affected by weather," Landy explains. "That's one reason why our category wasn't too badly affected."

By comparison, sales of domestic beer grew by 7.5 per cent and U.S. beer by 5.5 per cent.

The trend toward premium, true for both imported and domestic products, is a welcome one for a category that has historically carried higher-volume, lower-margin products.

On the domestic side, it's evident in sales of products such as Sleeman, Creemore Springs, Steam Whistle, Alexander Keith's India Pale Ale and Moosehead.

Customers who prefer microbrews and other premium products – including the echo boomers – tend to want more information on products and food-matching. The LCBO is introducing new displays to make the shopping experience more customer-friendly and informative. In some cases, product promotions – like a fruit beer promotion in May, 2001 – are being tied to articles in the LCBO's free consumer magazine, *Food & Drink.*

## A great festive gift

Also contributing to the category's success this year was a new emphasis on gifting.

The number of gift-packs offered by Beers & Special Markets this holiday season increased to 20 from 12; sales rose to $1.1 million in the third quarter alone, an increase of more than 500 per cent over the previous year.

"These sales show that beer makes a great festive gift," according to Landy. "There were some very interesting beers available, at price points mostly under $15 or $20."

As its name implies, the category sells more than beer. It also sells coolers, ciders, saké, Kosher products, cocktails-to-go and accessories.

**Coolers:** After two years of torrid growth, cooler sales grew just 0.2 per cent this fiscal year. Bad weather likely played a role, as coolers are considered a weather-sensitive product, most often consumed at social gatherings. Cooler sales picked up considerably in mid-summer as the weather improved, with sales of $91.5 million for the fiscal year – 93.1 per cent of that coming from spirit-based coolers, the rest from wine-based (4.3 per cent) and beer-based (2.6 per cent) products.

**Kosher:** The LCBO offered the largest-ever number of Kosher products for Passover this fiscal year – more than 80 – including table wines, spirits, fortified and sparkling wines and liqueurs. The selection reflected the changing tastes of a more sophisticated buying public. Sales of Kosher products were up 35 per cent over last year to $3.5 million.

**Cocktails-to-go:** Pre-mixed cocktails were extremely successful, growing by 30 per cent – and by 48 per cent in the second half of the year – which was considerably higher than planned. Landy expects this success to continue in the year ahead.

**Saké:** Another growing sub-category – albeit a fairly small one – its sales rose 32 per cent to $1.5 million.

## Looking ahead

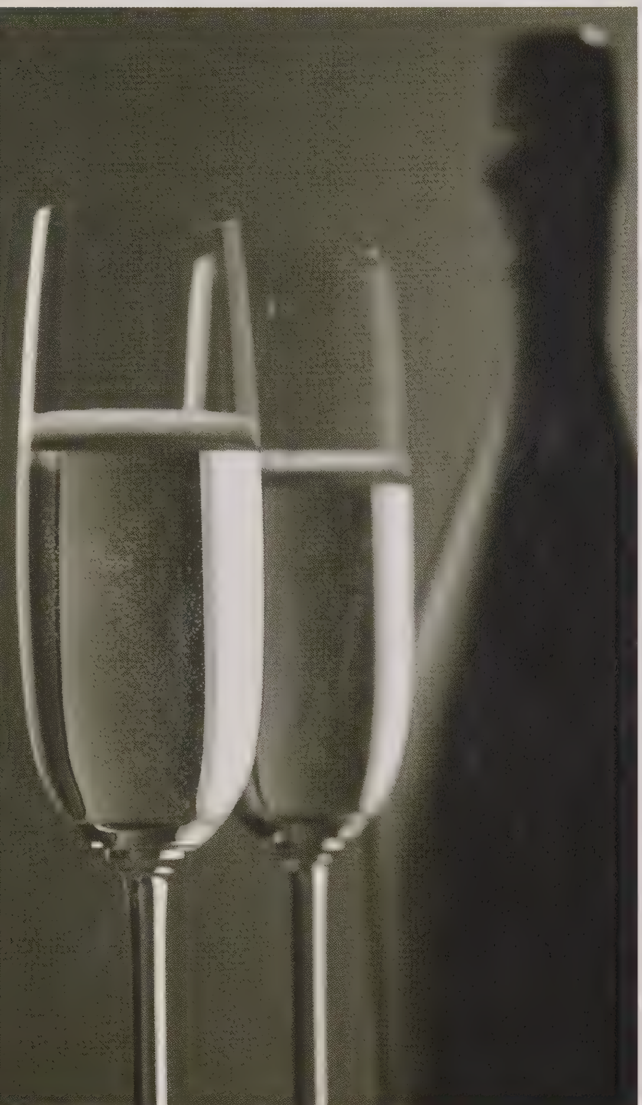
Landy believes consumers will continue to trade up to premium beers, choosing flavour and quality over price and quantity. The Premium Specialty Beer Section will feature, on a rotational basis, products designed to appeal to the adventurous consumer, and encourage customers to browse longer. Some specialty beers won't necessarily achieve significant market penetration, but they will create a stir among connoisseurs eager to discover new products from around the world.

Early in fiscal 2001-2002, LCBO stores introduced a Party Zone, where customers could find products favoured for social gatherings. These included flavoured wine drinks, cocktails-to-go, ciders and coolers.

Effective in fiscal 2001-2002, Vintages – the premium products division of the LCBO – will no longer carry beers. All beer sold at the LCBO will now be purchased by Beers & Special Markets, where buyers have developed a focused expertise in this area. Consumers will still get a full range of beers to choose from; they'll just be consolidated in one category.

# Vintages

**MISSION: TO BE THE BEST PURCHASER, MARKETER AND RETAILER OF FINE WINE AND PREMIUM SPIRITS IN THE WORLD.**



VINTAGES, the premium products division of the LCBO, continued its trend of double-digit growth in fiscal 2000-2001, increasing its sales to $128.8 million, an 11 per cent increase over the year before.

"Given how strong the millennium year was for us – a 30 per cent increase over the previous year – this was a significant achievement," says VP VINTAGES Tom Wilson.

Key to this performance was a 17 per cent increase in sales of red wine, which accounts for just under 60 per cent of VINTAGES' business. White wines also performed well: sales increased by 14.2 per cent, boosting their share of the VINTAGES wine market to 24.9 per cent.

Premium spirits sales increased by 7.4 per cent over the year before, led by an 18.9 per cent increase in sales of single malt Scotch.

Sales of beer and rosé were affected by poor weather in spring and summer, falling by 8 per cent and 1.5 per cent respectively. And sales of sparkling wine – especially premium Champagnes from France – fell sharply, largely because they could not match the increases posted during the millennium season of 1999.

France is the largest supplier of VINTAGES' wine portfolio, but its market share in fiscal 2000-2001 dropped by 7.2 per cent to 30.2 per cent. "The 1997 Bordeaux wines were not perceived as providing outstanding value," explains Wilson. "The drop in Champagne sales also explains why France lost market share."

Significant gains were made by Australia, which increased its sales by 34.3 per cent to a total of 10.2 per cent market share; Italy (sales up 26.8 per cent to 16.4 per cent market share); the U.S. (sales up 15.5 per cent to 18.4 per cent market share); and Canada (sales up 14 per cent to 7.3 per cent market share).

## More than 3,100 products released

VINTAGES released more than 3,100 fine wines, spirits and beers during the fiscal year. Scores of new products are released every month in some 150 LCBO stores. Hundreds more are made available through alternate channels, such as the *Classics Catalogue*, now published three times a year. In fiscal 2000-2001, catalogue sales were $17.7 million, up 17.2 per cent over fiscal 1999-2000. The Bordeaux and Burgundy Futures programs allow consumers to buy wines before they are bottled, usually at a lower price than they would eventually pay in retail stores. This fiscal year, sales of Bordeaux futures from both the 1999 and 1998 vintages topped $9 million.

A number of year-round programs have made shopping VINTAGES more convenient and accessible. The Wines of the Month program highlights approachable products that offer excellent value. VINTAGES Essentials makes popular core products available on a continuing basis. And the Cellar Direct program helps collectors choose products suitable for ageing.

VINTAGES entered the world of e-commerce in March, 2001. Customers can now order selected wines, Champagnes and Cognacs, spirits, liqueurs and gifts for pickup at any LCBO store. "The Internet tends to draw people with similar characteristics to many of our best customers – upscale, educated and adventurous," notes Wilson. "We are testing the waters to see how it goes. By proceeding prudently, we can maximize opportunity while minimizing risk."

VINTAGES also began a direct e-mail program, called V-mail, to keep customers informed about upcoming tastings, releases, bin-end sales and other events. Customers are only added to the list if they give permission.

VINTAGES staged several successful public events this year, in both Toronto and Ottawa. These included winemakers' dinners and tastings where wine enthusiasts could sample products from upcoming *Classics Catalogue* releases – and order them on the spot if they so desired. These events have proven very popular with consumers, and provide another opportunity for VINTAGES to promote its world class portfolio and employees' product knowledge.

## Looking ahead

VINTAGES plans to further develop its e-commerce model, adding greater search capability.

"We are also looking to improve services and satisfaction for licensees, based on research conducted by the Wholesale department of the LCBO's Retail division," says Wilson.

VINTAGES will continue to expand event programming, offering licensees and retail customers the opportunity to taste products before buying them – an important consideration for consumers who favour premium products.

One of Wilson's biggest concerns is product allocation. "As customers become more wine-literate, greater demand is placed on finite quantities. There is much more global demand for good wines than there was 20 years ago; we work to get better allocations of good wines, but demand inevitably exceeds supply. Then you run the risk of raising expectations only to disappoint people. So we need to increase allocations of the best products by continuing to build strong relationships with key suppliers. We must also communicate our commitment to serving Ontario's fine wine and premium spirits market and, in some cases, may need to have fair and equitable processes to better serve our best customers."

# Upgrading our store network

Like other major retailers, the LCBO must constantly improve its store network, to ensure it meets customer expectations for service, selection and accessibility.

In fiscal 2000-2001, we upgraded or relocated 14 stores in Burlington, Chatham, Kitchener/Waterloo, London, Mildmay, Ottawa, Paisley, Peterborough and Toronto.

While the largest project was the new 28,000 sq. ft. flagship store in Ottawa, which opened on Rideau Street in May, 2000, many improvements came in smaller communities such as Peterborough, London and Kitchener/Waterloo.

The new Peterborough store, which opened in March, 2001, was the first outside the Greater Toronto Area and Ottawa to feature a demonstration kitchen, where customers can learn more about food, beverage alcohol and ways to match them.

Many stores serving rural areas were also improved. In Mildmay and Paisley, for example, trailer stores were converted to permanent, free-standing buildings, where customers have more space in which to shop and more products to choose from.

Improvements to the store network went beyond relocations and renovations. We installed automatic doors in more than 300 stores to make shopping easier and safer for our customers. We increased the amount of refrigeration space in hundreds of stores and installed beer cold rooms in 25 stores as a customer convenience.

Some $28 million was spent on upgrades, repairs and other improvements in fiscal 2000-2001.

Not only do these changes increase customer satisfaction: they generate incremental sales and revenues that help pay for themselves.

For example, sales at the new Rideau Street flagship store in Ottawa are up 71 per cent since its relocation. Two other stores in Nepean and Kanata that were renovated or relocated in May, 2000 have also generated respective increases of 52 and 35 per cent. Together, these stores have helped carry the City of Ottawa stores to a combined growth rate of 13 per cent, compared to a provincial rate of 5.2 per cent.

The LCBO incurs no debt when carrying out capital improvements; all projects are funded from the capital plan.

Market research conducted by our Customer Insights Group helps pinpoint the best possible locations for stores. Factors such as parking, visibility, barrier-free access, loading facilities, demographics and neighbouring stores are all considered.

In a large-scale customer survey done in February, 2001, 81 per cent of respondents said the store they shopped most frequently was conveniently located; that is up from 76 per cent in February, 1999.

Improved customer satisfaction ratings and sales indicate our upgrades are well worth the effort. So do our sales per square foot, which have increased significantly. At time of writing (May, 2001) the LCBO had fewer stores (600) than it did in 1990-1991 (621), yet annual net sales have climbed by more than $700 million since then. By consolidating underperforming stores, and by locating new stores where our customers want to shop – with all the products and services they expect under one roof – our network has become more efficient, profitable and customer-friendly.

Over the next two years, we plan to improve the store network as follows:

- Flagship stores: range up to 25,000 square feet or more and are located in large urban centres, carrying a global assortment of LCBO General List and VINTAGES products. They also offer a complete range of LCBO customer services and special events, including demonstration kitchens; VQA sections; listening stations where customers can preview music to round out their party atmosphere; a computer terminal where "surfers" can look up product information on the Internet; and a gift centre. Staff at new flagship stores undergo intensive training to ensure they can provide the knowledgeable service their customers may expect. One flagship store opened in fiscal 2000-2001 in Ottawa. Three more are expected to open over the next two years.
- Full-service stores: up to 20,000 square feet in major and medium-sized urban markets, these stores provide a wide assortment of products (2,500-3,000), a gift centre, and a VINTAGES boutique carrying 500-800 brands. They also offer special events to suit the specific market. One opened in fiscal 2000-2001; another 15 are planned over the next two years.
- New IMAGE stores: at 7,000-10,000 square feet, these stores carry 1,800-2,000 General List products and have a VINTAGES boutique with up to 500 brands. They are found in both major and smaller urban markets. Six opened in fiscal 2000-2001; up to 33 are planned over the next two years.
- Mini-stores and kiosks: at 600-3,000 square feet in high-traffic shopping areas, these stores are designed to close the gap in under-serviced areas or target specific niche markets, like our Chinese kiosk in Markham and our Kosher kiosk in Thornhill. Mini-stores offer 500 of the most popular brands from the General List and VINTAGES. Five opened in fiscal 2000-2001; another nine are planned over the next two years.

These improvements will take place in major centres, such as Toronto; nearby communities such as Maple and Richmond Hill; markets such as St. Catharines, Windsor, Kingston and London; and smaller communities, such as Alliston, St. Thomas and Cobourg.

By paying close attention to what its customers want, the LCBO will continue to improve its retail network to increase profitability, and to meet and exceed expectations in every market it serves.

# LCBO awards

Since 1990, the LCBO has received some 80 awards for customer service, staff training and development, store design, advertising, innovative retailing, corporate communications and social responsibility.

We added to this impressive total in fiscal 2000-2001, as the Ontario Chamber of Commerce named LCBO one of the Outstanding Businesses of the Year for 2000.

The LCBO was one of five companies honoured by the Chamber of Commerce, which described the winners as "Ontario's best and brightest."

In accepting the award, Chair and CEO Andrew S. Brandt said it was a tribute to the work of all LCBO employees, the business savvy of our Board Members and the support of the Government of Ontario for modernizing services. He also singled out Executive Vice President and Chief Operating Officer Larry Gee for his leadership, vision and role in creating positive change.

Other awards received in the fiscal year included two Excellence in Retail (ERA) Awards from the Retail Council of Canada. Our Holiday Celebrate 1999 Campaign won a Retail Advertising award, while the staff-training program WOW – Uncork the Knowledge won an Excellence in Customer Service award.

The LCBO was a finalist in four other categories: Retail Marketing, Online Retailing, New Retailing Concept (for its Millennium kiosks) and Innovative Retailer of the Year.

The LCBO has won eight ERA awards since 1996, including Innovative Retailer of the Year in 1997 and 1998, and Socially Responsible Retailer of the Year in 1997.

In design competitions, the LCBO won three awards for its flagship store on Rideau Street in Ottawa; another for our full-service store in Nepean's Crossroads Centre; two for a Millennium kiosk at the Sherway Gardens Mall in Etobicoke; and one for a holiday kiosk in Newmarket's Upper Canada Mall.

The LCBO has now won more than 35 awards for store design alone in the last decade.

LCBO was also honoured for two internally produced staff-training videos this fiscal year:

- *Shelf Talk: Wines of Ontario*, developed to help employees learn more about the award-winning wines of Ontario, won a Silver Leaf Award from the International Association of Business Communicators (Canada).
- *Shoptheft 101. Protect Your Store. Protect Yourself*, created to increase employee awareness of shoptheft and what they can do to prevent it, while ensuring their safety and that of colleagues and customers, won a Gold Medal in the Safety/Security category at the New York Festivals, along with a nomination as Best in Show; it also received a Bronze Medal at the Canadian Corporate Television and Video festival.

# Multi-Channel marketing

The vision of the LCBO is to be Ontario's Source for Entertaining Ideas. That means being more than a place where people come to buy beverage alcohol, says Nancy Cardinal, VP Marketing Communications. "It's the place they look to for the right gift for holidays and other occasions; the first place that comes to mind when they are planning dinner with friends, a wedding or other gathering."

Research shows that many LCBO customers – especially its best customers – are busier than ever, striving to balance responsibilities at work and at home. "We want to be part of the solution, by offering a simple, convenient yet informative shopping experience," Cardinal affirms.

The LCBO vision first took root in our free consumer publication, *FOOD & DRINK*. Each issue informs readers about food, drink, décor and music, to help them entertain adventurously, yet with ease. It has become so popular that its print run has been increased from 300,000 copies per issue to 500,000, and we now publish six issues a year instead of four.

Now LCBO is bringing *FOOD & DRINK* to life in our stores, where displays change every two months to reflect the content of the current issue. The magazine's style and content also help shape many in-store events, catalogues, advertising, CD compilations and our Internet site.

Customers today can expect greater consistency in displays and product location, no matter which store they visit. Every point of contact between the LCBO and its customers should encourage browsing and learning, says Cardinal. "We want them to be knowledgeable and comfortable about buying and serving beverage alcohol."

## Looking ahead

Of all the channels involved in bringing *FOOD & DRINK* to life, the Internet could be the most exciting, says Cardinal. "Visitors can already access some recipes from the current issue. We anticipate they'll be able to access far more than that as we improve our site over the coming months."

The LCBO also plans to build on the success of last year's gifting program, which featured many popular items pre-wrapped in festive colours for customer convenience. Sales of gift items in fiscal 2000-2001 rose by 51 per cent over the year before, and the percentage of customers surveyed who say the LCBO inspires gift-giving more than doubled, from 20 per cent to 43 per cent. "We see tremendous opportunity here," Cardinal says. "Whether it's Christmas, Valentine's Day, Mother's Day or Father's Day, today's harried shopper is looking for help in finding the right gift for friends and family. This is one more area where today's LCBO can be part of their solution."


*Many in-store displays are inspired by FOOD & DRINK, the LCBO's popular consumer magazine.*

# Staff training

LCBO research shows that a key determinant of customer satisfaction is friendly, knowledgeable employees who can answer questions about beverage alcohol, food-matching, gifts and entertaining ideas.

As customers' own knowledge, sophistication and interest grows, it becomes ever more challenging for frontline employees to meet their heightened expectations. That's why the LCBO develops training programs to increase employees' understanding of the products we sell, and their comfort level in discussing them with customers.

One milestone in fiscal 2000-2001 was WOW 2000 – From Vines to Wines, developed by LCBO and industry partners. Under this program, some 6,000 full- and part-time employees from across the province visited wineries in one of Ontario's designated wine regions: Niagara, Lake Erie North Shore or Pelee Island. They met winemakers and sampled award-winning products along with complementary foods.


*The staff training program WOW 2000 – From Vines to Wines helped LCBO Customer Service Representatives like Jim Tsetsekas become more comfortable discussing the merits of Ontario wines with customers.*

Product knowledge programs such as this not only enhance customer satisfaction; they contribute to the bottom line. A similar program called That's the Spirit, developed by the LCBO and partners in the distilling industry, helped reverse a precipitous decline in the spirits category in the mid-1990s.

The LCBO also improved its financial assistance program for employees who want to take continuing education courses at colleges and universities that would improve their knowledge, skills and abilities in their present job, or one to which they might logically aspire. The LCBO reimburses employees upfront the full cost of approved courses.

Other training programs in fiscal 2000-2001 included a Leadership Excellence Action Program (LEAP) designed to help LCBO's leaders enhance their judgment, and communication and decision-making skills. A number of courses – combining classroom sessions, self-study materials and on-line learning – will be launched in fiscal 2001-2002.

The LCBO also used video-based training to help employees learn more about products from around the world, workplace safety issues and ways to prevent theft in stores.

## Looking ahead

All LCBO Retail employees must take a three-level Product Knowledge Correspondence Course to ensure they can help customers find the right product for any occasion or budget. In fiscal 2001-2002, the LCBO will launch a Service Knowledge Correspondence Course to help increase employees' ability to impart product knowledge to customers. The program supports the LCBO's strategic objective of having the right employees in the right place, with the right skills and attitudes; of making every Retail employee a customer service specialist, and every customer an informed shopper.

# Quality assurance

The primary goal of the LCBO Quality Assurance (QA) department is to ensure all products sold by the LCBO are safe to drink and of the highest quality.

Employees test all new products to ensure they are free of contaminants and defects; that they are tamper-resistant; and that their labels comply with federal guidelines. In fiscal 2000-2001, some 330,000 tests were conducted on 13,785 products. The QA department also arranged nearly 5,000 tastings of products to ensure they met high standards set by the LCBO, and, where applicable, the Vintners Quality Alliance Ontario (VQAO).

Quality Assurance performs other vital functions for the LCBO and its stakeholders.

Many researchers believe beverage alcohol – especially red wine – may protect moderate drinkers against heart disease and some forms of cancer. QA Director George Soleas and researchers at the University of Toronto and Mount Sinai Hospital have led several studies in these areas. This past fiscal year, the research team explored the cancer-fighting properties of compounds in red wine and is now studying how well they are absorbed by humans.

In collaboration with suppliers, agents and the Canadian Food Inspection Agency, QA is building a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

The lab tests samples seized by enforcement agencies and assists in confirming whether products were illegally manufactured or smuggled into Ontario. Employees are often called as expert witnesses in provincial court or at licensing hearings held by the Alcohol and Gaming Commission of Ontario.

Quality Assurance re-engineered its Laboratory Information Management System (LIMS) so that all its results are electronically input into a database.

*Quality Assurance laboratory technician Dorina Brasoveanu runs one of the more than 330,000 tests conducted on 13,785 products in fiscal 2000-2001.*

This increases efficiency, reduces the potential for human error, and allows data to be shared electronically with clients.

Quality Assurance helped pave the way to greater European Union (EU) access for domestic Icewines. The EU requires analyses above and beyond what is done for the Ontario marketplace. Working with colleagues in LCBO Corporate Policy and the VQAO, Soleas and his team helped develop the form that provides these analyses.

The laboratory is also asked to test products for other Canadian liquor jurisdictions and for suppliers. Fees for these services help offset the costs of new equipment.

## ISO accreditation

In July, 2001, Quality Assurance received accreditation under ISO-9001-2000 and under ISO/IEC-17025, a designation specific to chemistry laboratories.

Accreditation means QA certificates of analysis should be recognized internationally, creating greater export opportunities for domestic products.

# Social responsibility

The LCBO works hard to improve the products and services it offers consumers and to maximize the profits it delivers to the Government of Ontario to support social programs, services and capital projects. But we also work equally hard – alone and in partnership with other organizations – to promote social responsibility, and make a difference in every community we serve.

We do this by refusing to serve minors or customers who appear intoxicated; by creating and distributing other materials on responsible hosting and consumption; by creating advertising aimed at deterring impaired driving; by raising funds for MADD Canada and other organizations; and by conducting our business in an environmentally responsible fashion.

Here are some of the initiatives undertaken in fiscal 2000-2001 in these areas.

**Challenge and Refusal:** All LCBO Retail employees are trained to challenge and refuse service to anyone who appears to be impaired or who appears underage and cannot produce valid ID. They also challenge "second-party purchasers" – those believed to be buying alcohol for minors or people already impaired. In fiscal 2000-2001, LCBO employees challenged 1,148,646 customers, 26 per cent higher than the year before. Just under 80,000 were refused. Most challenges (97.5 per cent) were age related.

**Promoting responsible consumption:** The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message wherever possible. We also offer many low-alcohol wines, beers and spirits, and set minimum prices for products to encourage responsible consumption. All LCBO shopping bags contain a responsible drinking message, as do display screens on many point-of-sale terminals. Many LCBO staff also distribute social responsibility materials at licensee trade shows, consumer shows and festivals.

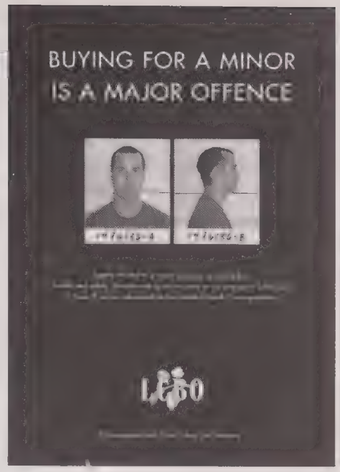
One of our most successful initiatives this year was the development of a colourful *Mocktail Guide*, containing recipes for delicious non-alcoholic drinks. Designed to appeal to designated drivers and responsible hosts looking for alternatives to alcoholic drinks, the guide received extensive publicity, with dozens of newspapers across the province running stories, recipes and follow-up interviews with LCBO product consultants. Media in Prince Edward Island, Quebec, Saskatchewan, Alberta and B.C. also reported on the guide, as did the national CTV program *Canada AM*.

Many LCBO store managers are asked by high school officials to provide alcohol-related information and, on occasion, to address students about the LCBO and its commitment not to serve minors. To help them fulfill this role, we provided all LCBO store managers with comprehensive kits containing fact sheets and brochures developed by the LCBO and organizations such as the Centre for Addiction and Mental Health, the Road Safety Office of the Ministry of Transportation and Ontario Students Against Impaired Driving. By giving students information specifically geared to them, the LCBO hopes to help them make smart, healthy choices about alcohol.

Because our Retail staff challenge and refuse service to so many minors, some teens ask older people to buy alcohol on their behalf. This fiscal year, we launched our first public campaign against second-party purchases. In-store posters reminded customers that "Buying for a Minor is a Major Offence" with severe penalties attached. It ran in stores in the fall of 2000 and again in May and June of 2001, in time for prom season and summer long weekends.

**Advertising:** In June, 2000, the LCBO launched a year-long $2.4 million social responsibility campaign aimed at the group most likely to be charged as a result of RIDE roadside checks: males aged 25-34 who are moderate drinkers and believe they can drive safely after consuming a few drinks. Campaign elements included powerful television and radio commercials reminding people that drinking and driving is no accident – it's a choice – and that making the wrong choice can be devastating for the drinking driver, his or her family, and innocent victims. Edgy, humorous posters took a similar message to a venue where they couldn't be missed by the target audience: the men's washrooms of sports bars, roadhouses and campus pubs. Independent research shows the campaign achieved good awareness levels, and that the target group feels the LCBO has a legitimate role to play in promoting the responsible use of alcohol.

*Customer Service Representative Ken Quinto performs an ID check. More than one million would-be customers were challenged in fiscal 2000-2001 because they could not provide valid ID or appeared intoxicated.*




*This in-store poster reminded LCBO customers it is against the law to buy alcohol for minors.*

**Fundraising:** As part of its commitment to the communities it serves, the LCBO raises hundreds of thousands of dollars a year for the United Way and other charities. In the fall of 2000, the LCBO raised $143,000 for the United Way through employee donations and other special events. Our donation box program raised another $454,000 for national and provincial organizations, including Mothers Against Drunk Driving ($43,000). We also raised $83,000 for We Care, an organization that helps send children with disabilities to summer camp; $33,000 for Camp Oochigeas, which provides getaways to kids with cancer; and $56,000 for charity through the sales of promotional compact discs in our stores. Other monies come from in-store tastings, gift-wrapping services, local donation box drives in January and June and other events on behalf of local charities.

**Environment:** The LCBO works on a number of fronts to improve Ontario's environment. Stores recycle old corrugated cardboard; Head Office recycles fine paper, polystyrene, bottles, cans, newspapers, data tapes and other materials. We use remanufactured toner and fax cartridges; encourage suppliers to minimize their packaging; and contribute to non-profit environmental organizations such as the Composting Council, Recycling Council of Ontario and Pollution Probe. We also contributed $4 million in fiscal 2000-2001 – and $13 million over the past three years – to help fund and improve the effectiveness of municipal Blue Box and other waste reduction and diversion programs.

# Public Sector Disclosure Act

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 2000.

There are 34 LCBO names on this year's *Public Sector Disclosure Act* list, compared to 29 the year before. This increase is due in part to the fact that a number of employees in Information Technology received Y2K retention bonuses to ensure they stayed through the critical months leading up to the new millennium as well as the 2000 Leap Year. Some directors also appear on the list for the first time owing to their years of service, the fact they have reached the top of their pay ranges and because they opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. Management and excluded staff are eligible to receive five MCO days a year. Several directors were also promoted to Vice President or Executive Director during the fiscal year, which resulted in pay increases.

| Name | Position | Employment Income | Taxable Benefits |
|---|---|---|---|
| Bonic, Jacqueline | VP, Store Development & Real Estate | $121,382.04 | $336.16 |
| Brandt, Andrew | Chair & CEO | $104,049.79 | $332.74 |
| Browning, J. Alex | Sr. VP, Finance & Administration | $144,086.48 | $401.70 |
| Buck, Peter | Director, Human Resource Services | $114,982.29 | $334.80 |
| Burns, Tamara | Category Director, Wines | $105,270.61 | $316.60 |
| Cardinal, Nancy | VP, Marketing Communications | $114,607.04 | $336.16 |
| Chu, Hang-Sun | Sr. System Analyst | $102,143.52 | $217.00 |
| Clute, Peter | Exec. Director, Corp. Affairs | $110,282.23 | $359.50 |
| Denomme, David | Solicitor | $109,926.29 | $334.80 |
| Downey, Robert | Category Director, Spirits | $111,832.19 | $330.76 |
| Dutton, Rob | Director, Fin. Planning & Econ. Dev. | $114,982.29 | $334.80 |
| Ecker, Roy | Director, Central Region | $116,582.04 | $336.16 |
| Fisher, Ron | Director, Western Region | $117,392.29 | $354.40 |
| Fitzpatrick, Mary | Sr. VP, Gen. Counsel, & Corp. Secretary | $144,086.48 | $401.70 |
| Flynn, Larry | Sr. VP, Merchandising | $124,551.84 | $376.46 |
| Gee, Larry | Executive VP & COO | $206,162.68 | $528.56 |
| Green, Michael | Solicitor | $111,625.29 | $334.80 |
| Hicks, William | Director, Durham Facility | $108,925.77 | $473.68 |
| Holloway, Brian | Director, Application Systems | $110,235.93 | $307.84 |
| Kane, Murray | Sr. VP, Human Resources | $144,086.48 | $401.70 |
| Kelly, Hugh | Sr. VP, Information Technology | $166,508.48 | $401.70 |
| Kennedy, William | Exec. Director, Corp. Communications | $116,582.04 | $336.16 |
| Ker, Gerry | Director, Corporate Policy | $114,982.29 | $334.80 |
| Lyons, Carol | Controller | $103,923.06 | $334.80 |
| Marshall, David | Director, Northern Region | $112,415.29 | $1,213.80 |
| Martin, John | Sr. VP, Logistics | $141,717.25 | $401.70 |
| McGrath, Bruce | Sr. System Analyst | $107,408.24 | $219.34 |
| Murphy, Peter | Director, Conventional Warehousing | $103,742.57 | $313.38 |
| Ramsay, Gary | Director, Application Systems | $108,290.83 | $328.14 |
| Sherwood, Garfield | Sr. VP, Retail | $144,086.48 | $401.70 |
| Stanley, Thomas | Mgr., Information Resource Mgmt. | $101,347.86 | $255.62 |
| Tughan, William | Director, Resource Protection | $100,656.07 | $293.22 |
| Wilson, Thomas | VP, VINTAGES | $116,582.04 | $336.16 |
| Zachar, Wayne | Director, Employee Relations | $111,204.65 | $331.78 |

# Responsibility for financial reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2001.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 50, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. C. Browning

J. Alex Browning
*Senior VP Finance & Administration, and Chief Financial Officer*

# Financial overview

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

## Operations

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 595 | 596 | 600 | 602 | 601 |
| Number of Permanent Employees | 2,828 | 2,934 | 3,014 | 3,074 | 3,174 |
| Number of Regular Products Listed | 2,960 | 3,098 | 3,366 | 3,496 | 3,478 |

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

## Financial (values in $000s)

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,013,873 | 2,160,843 | 2,349,832 | 2,549,458 | 2,734,937 |
| % change/previous year | 5.45% | 7.30% | 8.75% | 8.50% | 7.28% |
| Operating Expenses | 324,457 | 351,653 | 374,558 | 414,861 | 468,090 |
| As a % of Net Sales & Other Income | 16.11% | 16.27% | 15.94% | 16.27% | 17.12% |
| Net Income | 701,030 | 744,904 | 809,425 | 845,694 | 876,272 |
| As a % of Net Sales & Other Income | 34.81% | 34.47% | 34.45% | 33.17% | 32.04% |

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 44.

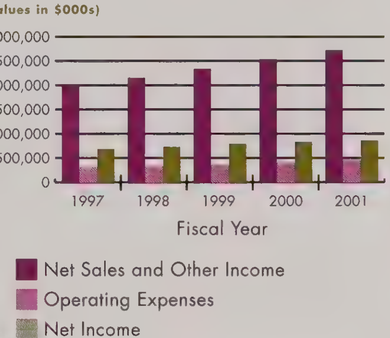
## Breakdown of Operating Expenses (values in $000s)

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Salaries and Benefits | 203,699 | 218,631 | 231,486 | 244,399 | 266,929 |
| Depreciation | 22,167 | 24,666 | 25,580 | 29,582 | 40,546 |
| Other Expenses | 98,591 | 108,356 | 117,492 | 140,880 | 160,615 |
| Total Operating Expenses | 324,457 | 351,653 | 374,558 | 414,861 | 468,090 |

### Key Indicators: 1997-2001

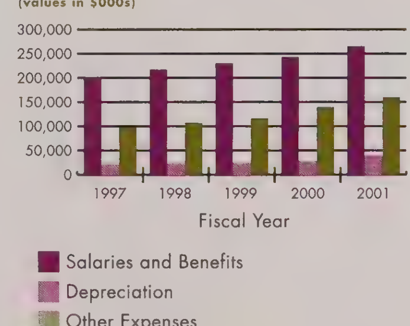

### Financial Indicators: 1997-2001

(values in $000s)




### Operating Expenses: 1997-2001

(values in $000s)



The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

## Treasurer of Ontario

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: on account of profits | 730,000 | 745,000 | 780,000 | 800,000 | 850,000 |
| Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor | 192,357 | 202,148 | 220,645 | 239,071 | 255,347 |
| Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits | 520,829 | 505,656 | 519,472 | 537,569 | 524,110 |
| Remitted by others:** Ontario Retail Sales Tax on sales through Brewers Retail stores and Ontario winery retail stores | 157,582 | 160,321 | 168,281 | 177,406 | 177,302 |
| Ontario Retail Sales Tax on sales through agency stores | 2,565 | 2,839 | 3,305 | 3,672 | 3,847 |
| **Total** | **1,603,333** | **1,615,964** | **1,691,703** | **1,757,718** | **1,810,606** |

* The Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

## Receiver General for Canada

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: Excise taxes and Customs duties | 239,058 | 247,413 | 249,639 | 267,137 | 278,430 |
| Goods and Services Tax | 64,672 | 68,642 | 66,192 | 69,718 | 79,056 |
| Remitted by others: Excise taxes, GST and other duties/taxes | 342,763 | 329,802 | 333,407 | 367,637 | 361,917 |
| GST remitted on sales through agency stores | 1,496 | 1,656 | 1,928 | 2,142 | 2,244 |
| **Total** | **647,989** | **647,513** | **651,166** | **706,634** | **721,647** |

## Ontario Municipalities

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: grants in lieu of realty and business taxes | 5,816 | 5,897 | 3,680 | 3,569 | 3,671 |
| **Total Revenue Payments** | **2,257,138** | **2,269,374** | **2,346,549** | **2,467,921** | **2,535,924** |

Note: These amounts do not include corporation, realty and business taxes paid by distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2001 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

## LCBO Volume Sales (in 000s Litres)

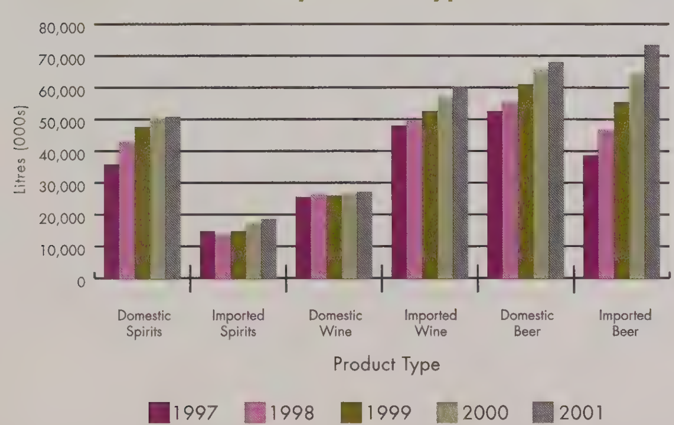
| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Domestic Spirits | 30,615 | 31,015 | 31,834 | 33,310 | 34,286 |
| Domestic Spirit Coolers | 5,556 | 12,150 | 16,168 | 17,361 | 16,789 |
| Imported Spirits | 15,097 | 14,059 | 15,175 | 17,491 | 18,851 |
| **Total Spirits** | **51,268** | **57,224** | **63,177** | **68,162** | **69,926** |
| Domestic Wine | 24,957 | 25,845 | 25,795 | 26,523 | 26,958 |
| Domestic Wine Coolers | 895 | 718 | 544 | 489 | 499 |
| Imported Wine | 48,328 | 49,617 | 52,952 | 57,010 | 60,626 |
| **Total Wine** | **74,180** | **76,180** | **79,291** | **84,022** | **88,083** |
| Domestic Beer | 52,861 | 55,763 | 61,377 | 65,618 | 67,677 |
| Domestic Beer Coolers | 20 | 24 | 38 | 339 | 627 |
| Imported Beer | 39,021 | 47,082 | 55,827 | 64,451 | 73,756 |
| **Total Beer** | **91,902** | **102,869** | **117,242** | **130,408** | **142,060** |
| **Total Domestic** | **114,904** | **125,515** | **135,756** | **143,640** | **146,836** |
| **Total Imported** | **102,446** | **110,758** | **123,954** | **138,952** | **153,233** |
| **Total** | **217,350** | **236,273** | **259,710** | **282,592** | **300,069** |

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 14,411 | 14,838 | 13,878 | 14,074 | 14,961 |
| Sales by Brewers Retail & On-site Stores | 653,106 | 654,284 | 654,413 | 663,806 | 643,721 |

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 2001 figures for sales by BRI and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

## Share of Volume Sales


## LCBO Volume Sales by Product Type: 1997-2001




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Share of Value Sales

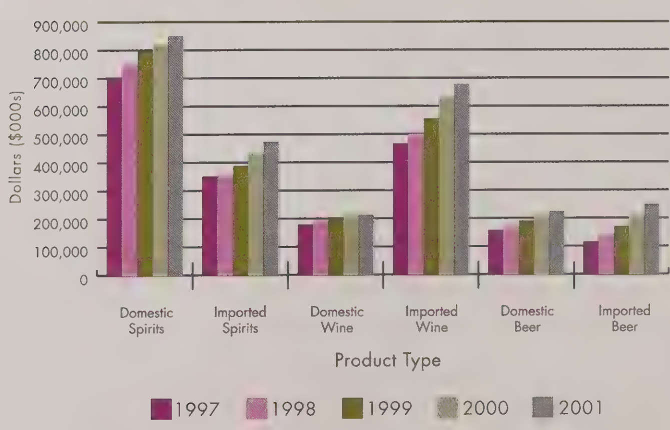

## LCBO Value Sales (in $000s)

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Domestic Spirits | 680,092 | 691,165 | 717,270 | 739,313 | 771,487 |
| Domestic Spirit Coolers | 27,893 | 61,093 | 80,716 | 84,579 | 82,354 |
| Imported Spirits | 354,929 | 358,363 | 391,872 | 435,093 | 476,972 |
| **Total Spirits** | **1,062,914** | **1,110,621** | **1,189,858** | **1,258,985** | **1,330,813** |
| Domestic Wine | 178,563 | 190,809 | 201,723 | 211,595 | 214,443 |
| Domestic Wine Coolers | 3,209 | 2,612 | 1,976 | 1,797 | 1,954 |
| Imported Wine | 469,803 | 503,290 | 559,624 | 635,112 | 680,993 |
| **Total Wine** | **651,575** | **696,711** | **763,323** | **848,504** | **897,390** |
| Domestic Beer | 160,544 | 170,538 | 194,149 | 208,882 | 225,612 |
| Domestic Beer Coolers | 67 | 83 | 144 | 1,035 | 2.076 |
| Imported Beer | 118,567 | 145,326 | 174,284 | 210,815 | 252,221 |
| **Total Beer** | **279,178** | **315,947** | **368,577** | **420,732** | **479,909** |
| **Total Domestic** | **1,050,368** | **1,116,300** | **1,195,978** | **1,247,201** | **1,297,926** |
| **Total Imported** | **943,299** | **1,006,979** | **1,125,780** | **1,281,020** | **1,410,186** |
| **Non-Liquor** | **3,124** | **3,479** | **3,914** | **5,389** | **6,213** |
| **Total** | **1,996,791** | **2,126,758** | **2,325,672** | **2,533,610** | **2,714,325** |

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 106,257 | 114,805 | 111,765 | 118,219 | 123,739 |
| Sales by Brewers Retail | 1,804,847 | 1,858,377 | 1,937,004 | 2,021,111 | 2,062,297 |

Note: Value sales listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

## LCBO Value Sales by Product Type: 1997-2001




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Product Listings

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Spirits | 463 | 516 | 539 | 518 | 542 |
| Wine | 533 | 518 | 538 | 536 | 499 |
| Beer | 330 | 346 | 385 | 403 | 407 |
| **Imported** | | | | | |
| Spirits | 484 | 542 | 601 | 586 | 641 |
| Wine | 938 | 963 | 1,085 | 1,192 | 1,113 |
| Beer | 212 | 213 | 218 | 261 | 276 |
| **Total Regular Listings** | **2,960** | **3,098** | **3,366** | **3,496** | **3,478** |
| VINTAGES Wines and Spirits | 2,744 | 3,037 | 3,235 | 3,569 | 3,108 |
| Duty-Free Listings | 205 | 213 | 210 | 235 | 212 |
| Consignment Warehouse and Private Stock | 4,573 | 5,240 | 5,241 | 6,106 | 6,225 |
| **Total Product Listings** | **10,482** | **11,588** | **12,052** | **13,406** | **13,023** |

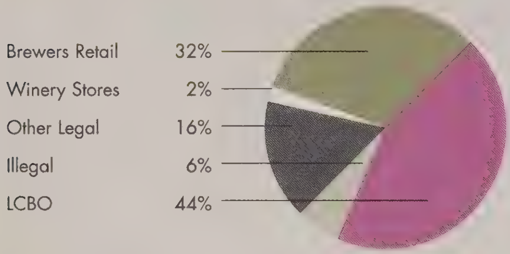
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

## LCBO Sales Channel Summary (in $000s)

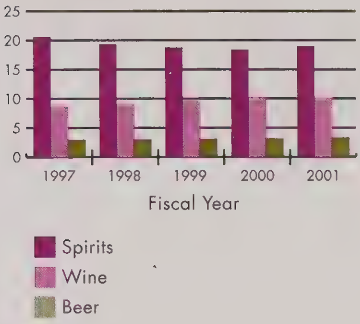
| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| LCBO Total Sales | 2,342,998 | 2,493,935 | 2,725,858 | 2,967,710 | 3,177,916 |
| Brewers Retail Total Sales | 2,075,664 | 2,114,467 | 2,214,918 | 2,324,225 | 2,381,289 |
| Winery Retail Stores Total Sales | 126,553 | 136,618 | 133,001 | 140,681 | 147,178 |
| **Other Channels:** | | | | | |
| Legal | 801,799 | 861,708 | 888,670 | 941,465 | 1,000,660 |
| Homemade | 59,945 | 60,918 | 63,567 | 59,070 | 49,025 |
| De-alcoholized Beer | 19,217 | 17,708 | 23,872 | 22,314 | 20,870 |
| Illegal | 620,175 | 583,780 | 542,896 | 455,801 | 405,918 |
| **Grand Total** | **6,046,351** | **6,269,134** | **6,592,782** | **6,911,266** | **7,182,856** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail Inc. figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

## Value by Sales Channel



### Average Retail Prices per Litre 1997-2001



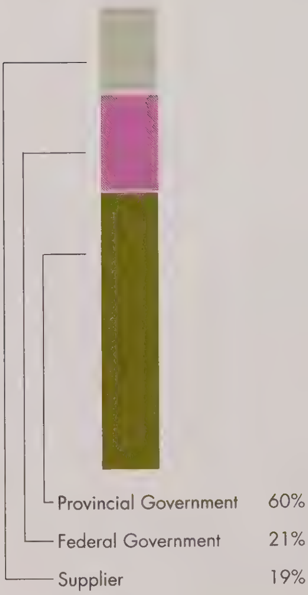

### Average LCBO Retail Prices

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Spirits | $20.65 | $19.41 | $18.83 | $18.47 | $19.03 |
| Wine | $8.67 | $9.15 | $9.63 | $10.10 | $10.19 |
| Beer | $3.03 | $3.07 | $3.14 | $3.23 | $3.38 |
| **Average Transaction Value per Customer** | **$26.69** | **$27.40** | **$28.07** | **$29.55** | **$30.51** |

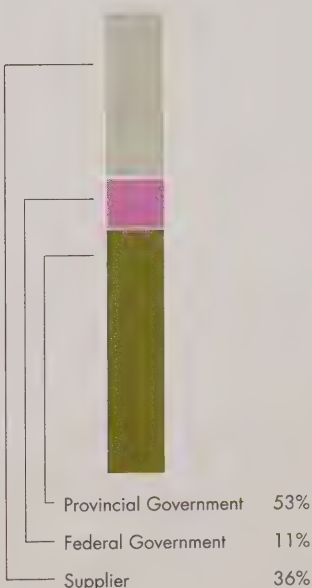
Note: Retail prices exclude GST and PST.

### Revenue Distribution

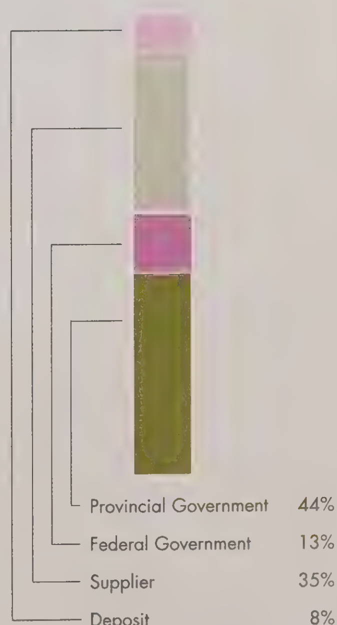
**SPIRITS**




**WINE**




**BEER**



The following table shows LCBO volume sales by category for fiscal 2000-2001.

## Product Category Share

| Canadian Spirits | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Canadian Whisky | 39.9% | 33.5% | 30.4% | 29.9% | 30.3% |
| Canadian Rum | 18.3% | 15.6% | 14.5% | 14.5% | 14.7% |
| Canadian Vodka | 17.1% | 15.4% | 14.3% | 14.2% | 14.6% |
| Spirit Coolers | 15.4% | 28.1% | 33.5% | 34.3% | 32.9% |
| Canadian Dry Gin | 3.2% | 2.5% | 2.2% | 2.1% | 2.1% |
| Other | 6.1% | 4.9% | 5.1% | 5.0% | 5.4% |

| Imported Spirits | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Scotch | 23.0% | 25.1% | 23.8% | 22.0% | 20.2% |
| Liqueur | 17.9% | 19.1% | 18.7% | 18.2% | 17.8% |
| Miscellaneous Liquors | 11.9% | 13.9% | 13.2% | 13.5% | 13.6% |
| Vodka | 11.0% | 12.4% | 13.9% | 15.5% | 16.0% |
| French Brandy | 8.0% | 9.3% | 9.4% | 9.0% | 8.8% |
| Spirit Coolers | 10.1% | 0.9% | 0.1% | 0.6% | 2.5% |
| Other | 18.1% | 19.3% | 20.9% | 21.2% | 21.1% |

| Canadian Wines | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| White Table | 51.3% | 49.2% | 48.6% | 48.4% | 48.4% |
| Red Table | 18.3% | 20.5% | 22.3% | 24.1% | 25.7% |
| 7% Sparkling | 6.3% | 6.0% | 6.1% | 6.2% | 5.6% |
| Sherry | 5.0% | 5.5% | 4.5% | 4.4% | 4.5% |
| Wine Coolers | 3.5% | 3.7% | 3.8% | 1.8% | 1.7% |
| Other | 15.6% | 15.1% | 14.7% | 15.1% | 14.1% |

Note: the wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

| Imported Wines | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| White Table | 46.7% | 43.8% | 42.3% | 39.6% | 37.6% |
| Red Table | 39.0% | 42.1% | 43.2% | 44.4% | 46.3% |
| Champagne | 3.7% | 3.8% | 4.1% | 4.6% | 3.5% |
| Sherry | 2.2% | 2.0% | 1.3% | 1.1% | 1.0% |
| Other | 8.4% | 8.3% | 9.1% | 10.3% | 11.6% |

| Canadian Beer | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Ontario Beer | 94.3% | 93.5% | 92.4% | 91.3% | 88.4% |
| Other Canadian Beer | 5.7% | 6.5% | 7.6% | 8.7% | 11.6% |

| Imported Beer | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| U.S. Beer | 42.8% | 42.1% | 41.8% | 36.9% | 31.0% |
| Other Imported Beer | 56.9% | 57.6% | 57.9% | 62.9% | 68.8% |
| Saké | 0.3% | 0.3% | 0.3% | 0.2% | 0.2% |

The following table shows detailed sales of wine by volume and value (LCBO sales only).

**Volume** (000s litres)

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Red Wine | 23,106 | 25,570 | 27,875 | 31,012 | 34,100 |
| White Wine | 35,226 | 34,093 | 34,483 | 34,913 | 35,189 |
| Rosé Wine | 2,108 | 2,493 | 2,853 | 3,264 | 2,984 |
| Sparkling Wine | 4,035 | 3,969 | 4,121 | 4,704 | 3,894 |
| Fortified Wine | 3,602 | 4,083 | 3,349 | 3,373 | 3,457 |
| Wine Coolers | 1,094 | 1,004 | 1,019 | 947 | 868 |
| Other Wine | 3,627 | 3,336 | 3,820 | 3,968 | 5,358 |
| VQA Wines* | 2,494 | 2,534 | 2,718 | 3,158 | 3,659 |

**Value** ($000s)

| Product Type | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Red Wine | 223,586 | 258,225 | 296,921 | 347,051 | 390,289 |
| White Wine | 287,892 | 288,217 | 301,198 | 312,901 | 319,344 |
| Rosé Wine | 16,341 | 19,983 | 23,490 | 27,699 | 25,091 |
| Sparkling Wine | 44,099 | 46,598 | 52,373 | 70,310 | 52,914 |
| Fortified Wine | 33,143 | 40,035 | 32,277 | 32,995 | 34,691 |
| Wine Coolers | 4,923 | 4,660 | 4,812 | 4,454 | 3,970 |
| Other Wine | 21,072 | 16,382 | 26,106 | 30,024 | 42,858 |
| VQA Wines* | 27,671 | 31,146 | 34,827 | 41,259 | 47,770 |

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales. The wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

The following table shows LCBO Spirits sales by country of origin for fiscal 2000-2001.

## Spirits 2000-2001

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 846,377,487 | 51,043,872 |
| Great Britain | 148,580,427 | 5,657,119 |
| U.S.A. | 45,913,988 | 2,406,476 |
| France | 73,214,020 | 2,306,126 |
| Ireland | 47,501,768 | 1,754,472 |
| Sweden | 34,770,344 | 1,715,595 |
| Italy | 30,317,295 | 1,323,444 |
| Mexico | 26,902,349 | 955,481 |
| Finland | 10,673,494 | 495,471 |
| Russian Federation | 7,851,532 | 349,063 |
| Poland | 6,022,885 | 267,749 |
| Germany | 6,488,458 | 258,509 |
| Barbados | 4,099,767 | 181,076 |
| Jamaica | 4,561,167 | 173,482 |
| Netherlands | 3,477,193 | 170,679 |
| Greece | 3,359,431 | 153,791 |
| Switzerland | 2,386,886 | 79,454 |
| South Africa | 1,810,994 | 79,095 |
| Cuba | 1,420,206 | 56,261 |
| Portugal | 1,148,986 | 40,232 |
| Bermuda | 1,082,158 | 37,642 |
| Spain | 811,909 | 34,528 |
| Croatia | 740,030 | 28,126 |
| Hungary | 524,542 | 24,304 |
| Puerto Rico | 525,112 | 22,856 |
| Ukraine | 432,011 | 16,600 |
| Lebanon | 368,771 | 14,286 |
| Bahamas | 301,868 | 13,718 |
| Denmark | 326,489 | 13,134 |
| People's Republic of China | 252,057 | 13,131 |
| Austria | 322,706 | 8,631 |
| India | 181,489 | 7,822 |
| Chile | 178,464 | 7,205 |
| Brazil | 95,851 | 4,884 |
| Guyana | 139,294 | 3,935 |

**Spirits continued**

| | | |
|---|---|---|
| Israel | 90,478 | 3,534 |
| Belgium | 95,802 | 2,888 |
| Philippines | 23,012 | 1,058 |
| Georgia | 41,256 | 984 |
| Antigua | 19,082 | 638 |
| Australia | 25,851 | 595 |
| Norway | 17,380 | 486 |
| Trinidad | 9,082 | 407 |
| Czech Republic | 9,175 | 378 |
| Bulgaria | 8,714 | 353 |
| Venezuela | 1,257 | 68 |
| Peru | 2,031 | 57 |
| Macedonia | 1,101 | 53 |
| Haiti | 226 | 7 |
| **Grand Total** | **1,313,505,875** | **69,729,755** |

The following table shows LCBO Wine sales by country of origin for fiscal 2000-2001.

## Wine 2000-2001

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 212,171,082 | 27,382,135 |
| France | 193,522,068 | 17,396,846 |
| Italy | 136,036,416 | 13,488,372 |
| U.S.A. | 97,562,116 | 8,466,644 |
| Australia | 79,219,613 | 5,642,180 |
| Chile | 37,739,151 | 3,638,220 |
| Germany | 19,971,395 | 1,983,204 |
| Portugal | 20,684,341 | 1,735,678 |
| Spain | 18,492,110 | 1,511,838 |
| South Africa | 13,073,072 | 1,278,733 |
| Greece | 5,134,720 | 664,490 |
| Argentina | 5,172,339 | 530,580 |
| Hungary | 3,619,334 | 468,480 |
| Bulgaria | 3,249,792 | 425,473 |
| Great Britain | 1,872,630 | 347,416 |
| New Zealand | 5,313,502 | 341,582 |
| Croatia | 773,354 | 98,186 |
| Israel | 793,471 | 77,569 |
| Austria | 518,597 | 46,232 |
| Federal Republic of Yugoslavia | 314,849 | 40,192 |
| Romania | 281,050 | 34,464 |
| Macedonia | 259,731 | 32,900 |
| Mexico | 332,601 | 32,451 |
| Denmark | 317,736 | 29,117 |
| Jamaica | 253,424 | 29,061 |
| Slovenia | 182,981 | 24,752 |
| Poland | 252,689 | 17,836 |
| Uruguay | 164,331 | 13,344 |
| Republic of Moldava | 131,774 | 12,655 |
| Japan | 111,646 | 11,791 |
| Morocco | 88,477 | 8,489 |
| Cyprus | 58,200 | 8,142 |
| Turkey | 54,927 | 6,827 |
| Czech Republic | 41,235 | 6,441 |
| Algeria | 37,025 | 4,669 |
| Georgia | 49,491 | 4,450 |
| Lebanon | 143,228 | 3,897 |
| Switzerland | 65,949 | 3,148 |
| Belgium | 11,738 | 657 |
| Malta | 5,661 | 579 |
| People's Republic of China | 741 | 54 |
| **Grand Total** | **858,078,587** | **85,849,774** |

The following table shows LCBO Beer sales by country of origin for fiscal 2000-2001.

## Beer 2000-2001

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 222,185,926 | 65,923,221 |
| U.S.A. | 56,626,708 | 19,700,828 |
| Netherlands | 54,155,396 | 13,122,564 |
| Mexico | 43,537,653 | 10,873,818 |
| Germany | 18,303,940 | 5,184,764 |
| Great Britain | 13,160,153 | 3,592,947 |
| Ireland | 11,416,531 | 2,712,082 |
| Poland | 6,640,575 | 1,973,546 |
| Denmark | 5,429,803 | 1,685,547 |
| Czech Republic | 3,132,340 | 914,216 |
| Belgium | 3,982,193 | 880,877 |
| Japan | 2,473,035 | 561,493 |
| Jamaica | 1,097,420 | 290,801 |
| People's Republic of China | 987,903 | 270,985 |
| Trinidad | 758,452 | 191,221 |
| Singapore | 513,755 | 157,408 |
| Italy | 528,156 | 138,700 |
| Portugal | 476,959 | 128,346 |
| South Africa | 358,822 | 110,176 |
| New Zealand | 336,015 | 92,749 |
| Croatia | 166,359 | 44,260 |
| Greece | 134,363 | 32,421 |
| Philippines | 89,520 | 26,986 |
| Cuba | 105,989 | 25,640 |
| Spain | 75,665 | 21,532 |
| India | 92,894 | 21,515 |
| Slovakia | 64,488 | 20,819 |
| Ukraine | 54,828 | 16,749 |
| Cyprus | 63,528 | 14,947 |
| Kenya | 55,207 | 14,738 |
| Panama | 32,454 | 8,871 |
| France | 52,696 | 6,843 |
| Brazil | 9,971 | 4,228 |
| Israel | 7,767 | 2,043 |
| Lebanon | 6,500 | 1,441 |
| Norway | 6,488 | 1,154 |
| Austria | 116 | 21 |
| **Grand Total** | **447,120,568** | **128,770,497** |

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 2000-2001, the LCBO sold products from 66 different countries.

# Auditor's report

**TO THE LIQUOR CONTROL BOARD OF ONTARIO AND TO THE MINISTER OF CONSUMER AND BUSINESS SERVICES:**

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2001 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2001, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters, FCA
*Provincial Auditor*

Toronto, Ontario
*June 11, 2001*

## Balance Sheet As at March 31, 2001

| Assets (in $000s) | 2001 | 2000 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 47,961 | 31,133 |
| Accounts receivable, trade and others | 15,649 | 13,114 |
| Inventories | 260,619 | 255,398 |
| Prepaid expenses | 6,086 | 9,079 |
| | **330,315** | **308,724** |
| **Long-term** | | |
| Capital assets (Note 4) | 186,996 | 172,124 |
| | **517,311** | **480,848** |

| Liabilities and Retained Income | 2001 | 2000 |
|---|---|---|
| **Current** | | |
| Accounts payable and accrued liabilities | 218,836 | 209,074 |
| Current portion of accrued benefit obligation (Note 3) | 4,202 | 1,358 |
| | **223,038** | **210,432** |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 26,329 | 10,794 |
| Retained income | 267,944 | 259,622 |
| | **517,311** | **480,848** |

**Commitments and Contingencies (Notes 5 and 8)**

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
*Chair and Chief Executive Officer*

R.A. (Dick) Dolphin
*Member; Chair, Audit and Governance Review Committee*

# Statement of Income and Retained Income

Year ended March 31, 2001

| (in $000s) | 2001 | 2000 |
|---|---|---|
| **Sales and other income** | 2,734,937 | 2,549,458 |
| Costs and expenses | | |
| Cost of sales | 1,390,575 | 1,288,903 |
| Retail stores and marketing | 339,017 | 303,272 |
| Warehousing and distribution | 46,565 | 41,888 |
| Administration | 41,962 | 40,119 |
| Amortization | 40,546 | 29,582 |
| | **1,858,665** | **1,703,764** |
| Net income for the year | 876,272 | 845,694 |
| Retained income, beginning of year | 259,622 | 213,928 |
| Workers Compensation Benefits (Note 3) | (17,950) | — |
| | **1,117,944** | **1,059,622** |
| Deduct: Dividend paid to Province of Ontario | 846,000 | 795,000 |
| Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9) | 4,000 | 5,000 |
| | **850,000** | **800,000** |
| **Retained income, end of year** | **267,944** | **259,622** |

See accompanying notes to financial statements.

# Statement of Cash Flows

Year ended March 31, 2001

| (in $000s) | 2001 | 2000 |
|---|---|---|
| **Cash Provided from Operations** | | |
| Net income | 876,272 | 845,694 |
| Amortization | 40,546 | 29,582 |
| Loss on sale of capital assets | 192 | 920 |
| | **917,010** | **876,196** |
| **Non-cash balances related to operations** | | |
| Working capital | 4,999 | (15,198) |
| Accrued benefit obligation | 429 | — |
| | **922,438** | **860,998** |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (55,689) | (54,456) |
| Proceeds from sale of capital assets | 79 | 13 |
| | **(55,610)** | **(54,443)** |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (846,000) | (795,000) |
| Payment to municipalities on behalf of the Province of Ontario | (4,000) | (5,000) |
| | **(850,000)** | **(800,000)** |
| Increase in cash during the year | 16,828 | 6,555 |
| Cash and cash equivalents, beginning of year | 31,133 | 24,578 |
| Cash and cash equivalents, end of year | **47,961** | **31,133** |

See accompanying notes to financial statements.

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### (d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

### (f) Employee Benefit Obligations

The Board provides pensions benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. These plans are accounted for as multi-employer defined benefit pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year. The cost of post-retirement, non-pension employee benefits are paid by Management Board Secretariat and are not included in the Statement of Income and Retained Income. Effective April 1, 2000, the Board also accrued Workers Compensation Benefits (see Note 3) and included in-year changes in the accrual in administration expenses. The accrued benefit obligation also includes an accrual for termination payments.

## 3. Workers Compensation Benefits

Effective April 1, 2000, the Board recognized its workers compensation obligation in the amount of $17.9 million which is not funded. This is the first year of recognizing this obligation in accordance with the Canadian Institute of Chartered Accountants' new recommendations for accounting for employee future benefits. The new recommendations have been adopted on a retroactive basis without restatement. The impact on prior years has been reflected as an adjustment to opening retained earnings. The current year's impact is included in administrative expenses. The recognized amount has been determined from actuarial calculations provided by the Workplace Safety and Insurance Board. At March 31, 2001, the Provision for workers compensation benefits totaled $17.2 million and is included in the accrued benefit obligation together with accrued termination payments of $13.3 million (1999 - $12.2 million).

## 4. Capital Assets

| (in $000's) | 2001 Cost | 2001 Accumulated Amortization | 2001 Net Book Value | 2000 Net Book Value |
|---|---|---|---|---|
| Land | 13,835 | — | 13,835 | 13,835 |
| Buildings | 281,718 | 182,541 | 99,177 | 81,871 |
| Furniture and fixtures | 35,736 | 27,645 | 8,091 | 6,512 |
| Leasehold improvements | 103,589 | 71,109 | 32,480 | 29,913 |
| Computer equipment | 84,748 | 51,335 | 33,413 | 39,993 |
| | **519,626** | **332,630** | **186,996** | **172,124** |

## 5. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | (in $000s) |
|---|---|
| 2002 | 28,575 |
| 2003 | 25,080 |
| 2004 | 21,323 |
| 2005 | 18,428 |
| 2006 | 15,963 |
| Thereafter | 72,707 |
| | **182,076** |

## 6. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was $9.8 million (2000 - $9.4 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2001 the Board had $1,469,069 (2000 - $1,441,000) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

## 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. Payment to Municipalities

The Board was directed by Cabinet to contribute $4 million in 2000-2001 (1999-2000 - $5 million) directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further approved that $5 million be paid in each of the next five years.

## 10. Comparative Figures

The March 31, 2000 comparative figures have been reclassified where necessary to conform to the current year's presentation.

# Board members

**MEMBERS OF THE LCBO BOARD, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDERS-IN-COUNCIL. APPOINTMENTS, UP TO FIVE YEARS, ARE SOMETIMES RENEWED.**

**Andrew S. Brandt:**
Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February, 2003.

Re-appointed in 2000 for a fourth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on city council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the *Financial Post* magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Merite Agricole and a Chevalier in the Confrerie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland. In 2001, he was one of six finalists for the 18th Annual Marketer of the Year Award, given by the Toronto chapter of the American Marketing Association.

*The Members of the LCBO Board, from left to right: Thom A. Bennett, Dr. Merle A. Jacobs, John C. Hopper, R.A. (Dick) Dolphin and John S. Lacey.*

**Thom A. Bennett:**
Appointed October 11, 2000.
Term expires October, 2003.

President and owner of Bennett Insurance Agency Ltd., Mr. Bennett is a seasoned senior executive with a proven business management background and specific expertise in the field of employee benefits. He has served as Chair of the Ontario Video Lottery Corporation and Vice-Chair of the Ontario Lottery Corporation, where he took part in a major restructuring program designed to enhance the corporation's efficiency and profitability. A resident of Ottawa, he sits on the Board of Directors of the University of Ottawa Heart Institute; has coached little league baseball in Nepean; has served as Secretary of the Kiwanis Club of South Ottawa; and was a Cub Leader with the Boy Scouts of Canada.

**R.A. (Dick) Dolphin:**
Appointed October 7, 1997.
Term expires October, 2003.

A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin retired in 1997 from financial services giant KPMG, for whom he'd worked for 23 years. He spent many of those years as Managing Partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as President, and is immediate past-Chair and CEO of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates. He is also Chair of City of Peterborough Holdings Inc. and is a Member of the Council for the Institute of Chartered Accountants of Ontario.

**John C. Hopper:**
Appointed September 8, 1997.
Term expires September, 2003.

A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past-President of the Ontario Automobile Dealers Association. A former North Bay city councillor, he has a long history of community service: he is a member of the Masonic Lodge; a member and past-President of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a member of the Board of Governors of Thorneloe University in Sudbury; and he chaired the $7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

**Merle A. Jacobs:**
Appointed December 17, 1997.
Term expires December, 2003.

Dr. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has maintained her skills as a Registered Nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is an executive member of the Registered Nurses Association of Ontario's Mental Health Interest Group. She is a director of Roots Cultural Foundation and Royal Business Training Centre and teaches at Ryerson Polytechnic University and York University. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.

**John S. Lacey:**
Appointed June 26, 1996.
Appointed Vice Chair June 25, 2001. Term expires June, 2002.

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaws, and the Holiday Inn and Marriott hotel chains. Now Executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada from South Africa in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

# LCBO useful facts

**(FOR THE FISCAL YEAR ENDED MARCH 31, 2001, UNLESS OTHERWISE NOTED)**

## *The Marketplace*

| | |
|---|---|
| 601 | Number of LCBO stores serving communities across Ontario |
| 107 | Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store |
| 847 | Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately-operated duty-free stores in Ontario |
| 44.2 | Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO |
| $7.2 billion | Total estimated value of Ontario's beverage alcohol market |
| $406 million | Estimated value of Ontario's illegal alcohol market |

## *Our Stores*

| | |
|---|---|
| 77 | Number of LCBO stores offering more than 2,500 brands for sale |
| 194 | Number of LCBO stores offering 1,500-2,500 brands for sale |
| 165 | Number of LCBO stores offering 1,000-1,500 brands for sale |
| 144 | Number of LCBO stores offering 500-1,000 brands for sale |
| 21 | Number of LCBO stores offering fewer than 500 brands for sale |
| 12,049 | Number of product tastings conducted in LCBO stores |
| 7 | Number of days per week most LCBO stores are open |
| 336 | Number of perfect 100 per cent scores received by LCBO stores from mystery shoppers |
| 1 | Percentage of customers in a February, 2001 survey who said they were dissatisfied with service in LCBO stores |
| 88.8 million | Total number of transactions in LCBO stores |
| 23.3 | Percentage of all LCBO transactions paid by debit card |
| 20.9 | Percentage of all LCBO transactions paid by credit card |

## *Our Financial Performance*

| | |
|---|---|
| $2.7 billion | The LCBO's net sales and other income |
| $850 million | Dividend the LCBO transferred to the Government of Ontario for 2000-2001 (excluding taxes) |
| $3.9 billion | Amount the LCBO has transferred the last five fiscal years combined (excluding taxes) |
| 321 | Percentage return on taxpayers' equity |
| 32 | The LCBO's profit margin, expressed as a percentage |
| 17.1 | The LCBO's operational expenses as a percentage of net sales for 2000-2001 |
| $255 million | Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 2000-2001 |
| $357 million | Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties |
| $28 million | Amount the LCBO spent on capital improvements to its stores (renovations, relocations, repairs, etc.) |

# Statistical Insert

FOR LCBO ANNUAL REPORT, FISCAL 2000-2001

## Product Listings

| Domestic | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Canadian Whisky | 145 | 160 | 168 | 158 | 163 |
| Canadian Blended Rums | 95 | 112 | 123 | 105 | 109 |
| Canadian Gin | 21 | 20 | 22 | 22 | 19 |
| Canadian Vodka | 69 | 70 | 75 | 70 | 75 |
| Canadian Brandy | 7 | 6 | 6 | 6 | 8 |
| Canadian Blended Brandy | 8 | 9 | 9 | 12 | 8 |
| Canadian Spirit Coolers | 45 | 56 | 46 | 51 | 64 |
| Fruit Spirits | 2 | 1 | 1 | 0 | 0 |
| Miscellaneous Liquors | 7 | 22 | 23 | 24 | 27 |
| Canadian Liqueurs | 52 | 48 | 53 | 55 | 56 |
| Ontario Wines | 490 | 465 | 477 | 474 | 448 |
| Ontario Wine Coolers | 10 | 5 | 4 | 5 | 7 |
| Other Canadian Wines | 21 | 27 | 39 | 43 | 32 |
| Canadian Cider | 12 | 21 | 18 | 14 | 12 |
| Canadian Beer (incl. Beer Coolers) | 330 | 346 | 385 | 403 | 407 |
| Alcohol | 0 | 3 | 4 | 3 | 3 |
| Miniatures | 9 | 6 | 6 | 9 | 7 |
| Bitters | 3 | 3 | 3 | 3 | 3 |
| | **1,326** | **1,380** | **1,462** | **1,457** | **1,448** |

| Imported | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Scotch Whisky | 108 | 127 | 135 | 108 | 119 |
| Irish Whiskey | 6 | 8 | 10 | 11 | 10 |
| American Whiskey | 17 | 21 | 21 | 21 | 22 |
| Gin | 13 | 14 | 16 | 17 | 15 |
| Rum | 14 | 18 | 16 | 20 | 29 |
| Vodka | 31 | 38 | 41 | 47 | 53 |
| Tequila | 12 | 9 | 10 | 19 | 23 |
| Brandy | 66 | 72 | 107 | 100 | 101 |
| Fruit Spirits | 2 | 4 | 2 | 3 | 3 |
| Miscellaneous Liquors | 53 | 67 | 78 | 86 | 96 |
| Liqueurs | 116 | 134 | 135 | 125 | 127 |
| Wines | 936 | 958 | 1,080 | 1,187 | 1,111 |
| Beer and Saké | 212 | 210 | 216 | 256 | 276 |
| Miniatures | 22 | 19 | 20 | 18 | 28 |
| Coolers | 18 | 9 | 7 | 11 | 7 |
| Bitters | 8 | 10 | 10 | 10 | 10 |
| Total Regular Listings | 2,960 | 3,098 | 3,366 | 3,496 | 3,478 |
| Vintages Wines and Spirits | 2,744 | 3,037 | 3,235 | 3,569 | 3,108 |
| Duty-Free Listings | 205 | 213 | 210 | 235 | 212 |
| Consignment Warehouse and Private Stock | 4,573 | 5,240 | 5,241 | 6,106 | 6,225 |
| **Total Product Listings** | **10,482** | **11,588** | **12,052** | **13,406** | **13,023** |

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

**Sales Channel Summary (value in $000s)**

| LCBO | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Retail Sales | 1,923,750 | 2,022,638 | 2,209,024 | 2,390,949 | 2,556,340 |
| Licensee Sales | 314,652 | 347,083 | 370,496 | 396,879 | 419,731 |
| Agency Sales | 22,643 | 25,059 | 29,180 | 32,420 | 33,981 |
| Duty-Free/Warehouse | 17,349 | 17,318 | 20,696 | 34,454 | 35,943 |
| Duty-Free/LCBO | 12,156 | 13,367 | 13,028 | 303 | 0 |
| BRI Sales | 48,920 | 64,891 | 80,438 | 109,692 | 128,848 |
| Other Sales | 3,528 | 3,579 | 2,996 | 3,013 | 3,073 |
| **Total** | **2,342,998** | **2,493,935** | **2,725,858** | **2,967,710** | **3,177,916** |
| **Brewers Retail** | | | | | |
| Retail & Licensee Sales | **2,075,664** | **2,114,467** | **2,214,918** | **2,324,225** | **2,381,289** |
| **Winery Stores** | | | | | |
| Retail Sales | **126,553** | **136,618** | **133,001** | **140,681** | **147,178** |
| **Other Channels** | | | | | |
| **Legal:** | | | | | |
| Cross-Border Exempt | 141,372 | 153,479 | 136,213 | 155,818 | 208,614 |
| Cross-Border Declared | 2,524 | 3,054 | 3,862 | 3,124 | 2,658 |
| Brew Pubs | 1,467 | 1,737 | 1,652 | 1,950 | 1,624 |
| Wine Pubs | 2,904 | 3,952 | 4,233 | 4,722 | 4,647 |
| U-Brew-Beer | 151,482 | 149,534 | 157,633 | 163,959 | 174,425 |
| U-Brew-Wine | 502,050 | 549,952 | 585,077 | 611,892 | 608,692 |
| **Total** | **801,799** | **861,708** | **888,670** | **941,465** | **1,000,660** |
| **Homemade:** | | | | | |
| Wine | 43,823 | 44,071 | 45,807 | 40,597 | 30,702 |
| Beer | 16,122 | 16,847 | 17,760 | 18,473 | 18,323 |
| **Total** | **59,945** | **60,918** | **63,567** | **59,070** | **49,025** |
| **De-alcoholized Beer** | **19,217** | **17,708** | **23,872** | **22,314** | **20,870** |
| **Illegal:** | | | | | |
| Smuggling | 421,443 | 393,991 | 353,344 | 279,883 | 270,735 |
| Wine Manufacturing | 198,732 | 189,789 | 189,552 | 175,918 | 135,183 |
| **Total** | **620,175** | **583,780** | **542,896** | **455,801** | **405,918** |
| **Grand Total** | **6,046,351** | **6,269,134** | **6,592,782** | **6,911,266** | **7,182,856** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual Ontario wineries.

## Retail Price Breakdowns

### Spirits

| Examples as at March 31, 2001 for 750 mL bottle in Canadian Dollars | Imported U.S. | Imported Non-U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $4.0542 | $4.0542 | $4.0542 |
| Federal Excise Tax | $3.3198 | $3.3198 | $3.3198 |
| Federal Import Duty | $0.0000 | $0.0148 | $0.0000 |
| Freight | $0.1058 | $0.2808 | $0.0467 |
| **Total Landed Cost** | **$7.4798** | **$7.6696** | **$7.4207** |
| LCBO Markup | $10.8532 | $11.1209 | $10.2406 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0140 | $0.0203 | $0.0143 |
| **Basic Price** | **$18.65** | **$19.12** | **$17.98** |
| Goods and Services Tax | $1.31 | $1.34 | $1.26 |
| Provincial Retail Sales Tax | $2.24 | $2.29 | $2.16 |
| **Consumer Price** | **$22.20** | **$22.75** | **$21.40** |

**Revenue Distribution**

| | | | |
|---|---|---|---|
| Supplier (including freight) | $4.16 | $4.34 | $4.10 |
| Government of Canada | $4.63 | $4.67 | $4.58 |
| Government of Ontario | $13.41 | $13.74 | $12.72 |

### Wines

| Examples as at March 31, 2001 for 750 mL bottle in Canadian Dollars | Imported U.S. | Imported Non-U.S. | Domestic 100% Ont. |
|---|---|---|---|
| Payment to Supplier | $2.6400 | $2.6435 | $2.6587 |
| Federal Excise Tax | $0.3842 | $0.3842 | $0.3842 |
| Federal Import Duty | $0.0000 | $0.0281 | $0.0000 |
| Freight | $0.2669 | $0.4157 | $0.0000 |
| **Total Landed Cost** | **$3.2911** | **$3.4715** | **$3.0429** |
| LCBO Markup | $2.1063 | $2.2218 | $1.7649 |
| LCBO Wine Levy | $1.1250 | $1.1250 | $1.1250 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0196 | $0.0198 | $0.0212 |
| **Basic Price** | **$6.85** | **$7.14** | **$6.26** |
| Goods and Services Tax | $0.48 | $0.50 | $0.44 |
| Provincial Retail Sales Tax | $0.82 | $0.86 | $0.75 |
| **Consumer Price** | **$8.15** | **$8.50** | **$7.45** |

**Revenue Distribution**

| | | | |
|---|---|---|---|
| Supplier (including freight) | $2.91 | $3.06 | $2.66 |
| Government of Canada | $0.86 | $0.91 | $0.82 |
| Government of Ontario | $4.38 | $4.53 | $3.97 |

## Beer

**Examples as at March 31, 2001 for a case of 24 x 341 mL bottles in Canadian Dollars**

| | Imported U.S. | Imported Non-U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $7.4700 | $10.1400 | $10.2000 |
| Federal Excise Tax | $2.2903 | $2.2903 | $2.2903 |
| Federal Import Duty | $0.0000 | $0.0655 | $0.0000 |
| Freight | $0.5248 | $2.7080 | $0.4312 |
| **Total Landed Cost** | **$10.2851** | **$15.2038** | **$12.9215** |
| LCBO In-store COS | $4.9595 | $4.9595 | $4.9595 |
| LCBO Out-of-store COS | $1.3422 | $1.3422 | $0.0000 |
| LCBO Markup | $4.0920 | $4.5162 | $4.0920 |
| LCBO Bottle Levy | $1.4404 | $1.4404 | $1.4404 |
| LCBO Environment Fee | $0.0000 | $0.0000 | $0.0000 |
| LCBO Rounding Revenue | $0.0237 | $0.0170 | $0.0320 |
| **Basic Price** | **$22.14** | **$27.48** | **$23.45** |
| Goods and Services Tax | $1.55 | $1.92 | $1.64 |
| Provincial Retail Sales Tax | $2.66 | $3.30 | $2.81 |
| Container Deposit | $2.40 | $2.40 | $2.40 |
| **Consumer Price** | **$28.75** | **$35.10** | **$30.30** |
| Supplier (including freight) | $7.99 | $12.85 | $10.63 |
| Government of Canada | $3.84 | $4.28 | $3.93 |
| Government of Ontario | $14.52 | $15.57 | $13.34 |
| Container Deposit | $2.40 | $2.40 | $2.40 |

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

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## Eleven Year Financial Performance Review

**(value in $000s)**

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| Sales and Other Income | $2,734,937 | $2,549,458 | $2,349,832 | $2,160,843 | $2,013,873 |
| Cost of Sales | $1,390,575 | $1,288,903 | $1,165,849 | $1,064,286 | $988,386 |
| Gross Profit | $1,344,362 | $1,260,555 | $1,183,983 | $1,096,557 | $1,025,487 |
| Per Cent | 49.16% | 49.44% | 50.39% | 50.75% | 50.92% |
| Operating Expenses | $468,090 | $414,861 | $374,558 | $351,653 | $324,457 |
| Net Income | $876,272 | $845,694 | $809,425 | $744,904 | $701,030 |
| **Statement of Cash Flow** | | | | | |
| Cash Flow from Operations | $916,324 | $875,289 | $834,465 | $769,507 | $723,197 |
| Change in Working Capital | $6,114 | ($15,198) | ($8,651) | ($29,537) | $49,819 |
| Cash Used for Investing Activities | ($55,610) | ($54,443) | ($40,265) | ($25,524) | ($19,424) |
| Cash Used for Provincial Transfers | ($850,000) | ($800,000) | ($780,000) | ($745,000) | ($730,000) |
| Decrease/Increase in Cash During the Year | $16,828 | $5,648 | $5,549 | ($30,554) | $23,592 |
| **Financial Position** | | | | | |
| Current Assets | $330,315 | $308,724 | $275,774 | $230,720 | $256,209 |
| Current Liabilities | $249,367 | $221,226 | $210,029 | $179,175 | $203,647 |
| Working Capital | $80,948 | $87,498 | $65,745 | $51,545 | $52,562 |
| Fixed Assets | $186,996 | $172,124 | $148,183 | $132,958 | $132,037 |
| Total Assets | $517,311 | $480,848 | $423,957 | $363,678 | $388,246 |
| **Financial Ratios** | | | | | |
| Profit Margin | 32.26% | 33.38% | 34.80% | 35.03% | 35.11% |
| Return on Shareholders' Equity | 321.42% | 357.17% | 406.31% | 403.63% | 352.13% |
| Current Ratio | 1.32 | 1.40 | 1.31 | 1.29 | 1.26 |
| **Statistics** | | | | | |
| Inventory Turnover | 5.25 | 5.21 | 5.38 | 5.53 | 5.02 |
| Number of Permanent Employees | 3,174 | 3,074 | 3,014 | 2,934 | 2,828 |
| Sales per Employee | $855,175 | $824,206 | $771,623 | $724,866 | $706,079 |
| Number of Stores | 601 | 602 | 600 | 596 | 595 |
| Number of Regular Products Listed | 3,478 | 3,496 | 3,366 | 3,098 | 2,960 |

| 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| $1,909,804 | $1,808,518 | $1,764,731 | $1,786,479 | $1,833,386 | $1,936,710 |
| $919,268 | $858,190 | $832,106 | $841,060 | $851,539 | $967,221 |
| $990,536 | $950,328 | $932,625 | $945,419 | $981,847 | $969,489 |
| 51.87% | 52.55% | 52.85% | 52.92% | 53.55% | 50.06% |
| $323,819 | $313,029 | $333,716 | $332,953 | $332,439 | $326,682 |
| $666,717 | $637,299 | $598,909 | $612,466 | $652,458 | $652,669 |
| **Statement of Cash Flow** | | | | | |
| $687,663 | $655,198 | $619,979 | $635,298 | $675,162 | $672,558 |
| $9,659 | $5,473 | ($15,824) | ($8,694) | $6,162 | $48,775 |
| ($26,256) | ($26,895) | ($14,753) | ($21,075) | ($25,754) | ($29,751) |
| ($680,000) | ($630,000) | ($585,000) | ($615,000) | ($675,000) | ($650,000) |
| ($8,934) | $3,776 | $4,402 | ($9,471) | ($19,430) | $41,582 |
| **Financial Position** | | | | | |
| $239,516 | $229,541 | $201,204 | $192,955 | $207,155 | $231,212 |
| $160,727 | $132,159 | $92,813 | $104,789 | $118,212 | $116,677 |
| $78,789 | $97,382 | $108,391 | $88,166 | $88,943 | $114,535 |
| $134,780 | $129,470 | $120,474 | $126,790 | $130,564 | $131,161 |
| $374,296 | $359,011 | $321,678 | $319,745 | $337,719 | $362,373 |
| **Financial Ratios** | | | | | |
| 35.33% | 35.61% | 34.24% | 34.36% | 36.04% | 33.96% |
| 302.76% | 285.63% | 269.90% | 281.94% | 280.50% | 266.53% |
| 1.49 | 1.74 | 2.17 | 1.84 | 1.75 | 1.98 |
| **Statistics** | | | | | |
| 5.07 | 4.92 | 5.02 | 4.70 | 4.72 | 4.79 |
| 2,803 | 2,824 | 2,743 | 3,100 | 3,233 | 3,305 |
| $673,273 | $633,656 | $637,678 | $574,998 | $560,185 | $581,445 |
| 596 | 597 | 600 | 611 | 618 | 621 |
| 3,149 | 3,053 | 2,824 | 2,737 | 2,787 | 2,601 |

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## *Products and Pricing*

| | |
|---|---|
| 14,589 | Total number of products available through LCBO stores, catalogues and private ordering service |
| 3,108 | Number of new VINTAGES products offered in stores and through the *Classics Catalogue* |
| 66 | Number of countries from which the LCBO bought products |
| 957 | Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program |
| 1,283 | Number of products that carried a "value-add" bonus item |
| 2,060 | Number of products with bonus AIR MILES Rewards |
| 81 | Percentage of domestic spirits prices made up of federal and provincial taxes, levies and markups |
| 64 | Percentage of domestic wine prices made up of federal and provincial taxes, levies and markups |
| 57 | Percentage of domestic beer prices made up of federal and provincial taxes, levies and markups |

## *Our Employees*

| | |
|---|---|
| 3,174 | Number of permanent full-time LCBO employees |
| 3,123 | Number of casual employees working in LCBO stores at fiscal-year end |
| 129 | Number of LCBO product consultants available to offer expert advice to customers |
| 5,061 | Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date |
| 2,242 | Number of LCBO Retail staff who received training to help prevent service to minors or people who appear intoxicated |
| 9,187 | Number of LCBO Retail staff who have received responsible service training to date |
| 119,254 | Number of calls handled by LCBO Infoline officers |
| 4,317 | Number of e-mails handled by LCBO Infoline officers |

## *Our Fundraising*

| | |
|---|---|
| $105,000 | Amount donated by LCBO employees to the United Way in calendar 2000 |
| $306,474 | Amount raised for charity through donation boxes in LCBO stores in calendar 2000 (Note: This does not include funds raised for local charities in January and June, or funds raised by the Royal Canadian Legion in November.) |

## *Social Responsibility*

| | |
|---|---|
| 1,148,646 | Number of customers challenged for proof of age or sobriety by LCBO staff |
| 79,844 | Number refused service by LCBO employees |
| 3,597 | Number of BYID tamper-resistant identification cards issued by the LCBO |
| 15,518 | Total number of BYID cards issued as of March 31, 2001 |

## *Quality Assurance*

| | |
|---|---|
| 330,000 | Number of product tests carried out by LCBO's Quality Assurance Laboratory |
| 347 | Number of products rejected by Quality Assurance for health concerns, consumer safety issues and other quality control problems |
| 663 | Number of seized products tested for enforcement purposes by Quality Assurance |
| 1 | Number of product recalls issued by Quality Assurance |

For information about LCBO products and services,
visit us on the Internet at:
www.lcbo.com and www.vintages.com

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# LCBO

ANNUAL REPORT 2001-2002

# Our seventh straight record year

CELEBRATE

*seventy-five years*

## The Annual Report

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Consumer and Business Services. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; it also provides an overview of the Ontario beverage alcohol marketplace.

## Contents



## Members of the LCBO Board (during fiscal 2001-02)

Andrew S. Brandt, *Chair and Chief Executive Officer*

John S. Lacey, *Vice Chair; Member, Audit and Governance Review Committee*

Thom A. Bennett, *Member; Chair, Audit and Governance Review Committee*

Gayle Christie, *Member; Member, Audit and Governance Review Committee*

R.A. (Dick) Dolphin, *Member; Chair, Audit and Governance Review Committee (died December 5, 2001)*

John C. Hopper, *Member*

Merle A. Jacobs, *Member*

Perry Miele, *Member (appointed April 3, 2002)*

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Bob Peter, *President and Chief Operating Officer*

## Letter of Transmittal

The Hon. Tim Hudak
*Minister of Consumer and Business Services*

Dear Minister,

I have the honour to present you with the 2001-02 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
*Chair and Chief Executive Officer*

### *In Memoriam*

Richard A. (Dick) Dolphin
1940-2001

Dick Dolphin was a Member of the LCBO Board from 1997 until his untimely death in December 2001. During his tenure on the LCBO Board, Dick was a great supporter of upgrading LCBO stores, and improving customer service and the overall shopping experience. As Chair of the LCBO Board's Audit and Governance Review Committee, he helped ensure taxpayers got good value for their money. As a caring member of the community, he supported LCBO efforts to raise funds for good causes and to serve the public responsibly. He is missed by all who knew him.

## Credits


The LCBO wishes to thank the Office of the Provincial Auditor and the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2001-02.

# MESSAGE FROM THE MINISTER

As Minister of Consumer and Business Services, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2001-02.

It is the mandate of the LCBO to provide excellent service and product selection to its customers; to maximize its dividend to the taxpayers and Government of Ontario; and to take a leadership role in promoting the socially responsible use of beverage alcohol. As this report documents, the LCBO fulfilled its mandate in these key areas in fiscal 2001-02.

Service continued to improve as the LCBO upgraded stores to provide consumers with more appealing environments in which to shop; tailored product assortments in many stores to better match local tastes; and introduced new programs aimed at reducing product handling, thus freeing up Retail staff to spend more time helping customers. The LCBO also developed and began implementing a plan to improve service to customers in rural areas through an expansion of its agency store program.

Dividend transfers grew to a record $905 million, the LCBO's seventh straight record year. These funds – which do not include an additional $275 million in Provincial Sales Tax – help support social programs, services and public infrastructure projects that benefit all taxpayers. The LCBO improved its financial performance in part by controlling operating expenses, which declined as a percentage of net sales from 17.1 to 16.7, and improving productivity at both the store and warehouse levels.

Commitment to social responsibility was evident on a number of fronts. In fiscal 2001-02, LCBO staff challenged more than 1.2 million would-be customers who appeared underage and could not provide valid ID; who appeared intoxicated; or who were believed to be buying alcohol for minors or intoxicated people. They refused service to nearly 77,000 people; 66 per cent of refusals were for age-related reasons. Corporate and employee fundraising efforts aided organizations such as MADD Canada; powerful TV advertising helped prevent impaired driving; and $4 million went to support municipal Blue Box programs. LCBO also helped protect the health of Ontario consumers through extensive testing at its Quality Assurance laboratory in Toronto, which ensures products sold in stores are safe to drink.

As the MPP for Erie-Lincoln, in the heart of Ontario wine country, I have developed a great appreciation of Ontario wines and the skill and passion with which they are made. I have been pleased to discover that the LCBO shares my enthusiasm for Ontario wines and works with our government and the Ontario wine industry to showcase these fine products. Through in-store promotions, a greater selection of "craft" wines from smaller producers and enhanced VQA displays, LCBO complements the efforts of our government and the Wine Council of Ontario to increase consumer awareness and appreciation of Ontario's outstanding wines, as well as our domestic beers and spirits.

Taxpayers, citizens and users of government services expect these services to be delivered in the most efficient manner possible. As Minister responsible, I, along with my colleagues in government and staff, will continue to work closely with the LCBO Board, employees and trade partners to ensure this public asset is well managed and the Ontario public is well served.

Tim Hudak
*Minister*
*Ministry of Consumer and Business Services*

# MESSAGE FROM THE CHAIR AND CEO

As fiscal 2001-02 drew to a close, the LCBO was preparing to mark its 75th anniversary, which fell on June 1, 2002. Looking back at archival material relating to the creation of the Liquor Control Board of Ontario in 1927 – old newspaper clippings, photographs and annual reports – I was struck by how far the LCBO and the province of Ontario have come in 75 years.

The LCBO was created primarily to control the sale and distribution of alcohol as Ontario emerged cautiously from the temperance era. Control was the operative word. Alcohol was viewed suspiciously, even distastefully, by many.

As was noted in the 1929 LCBO Annual Report: *"The sin of drunkenness is still with us and probably will remain with the host of other sins and crimes that scourge humanity just so long as human nature is what it is."*

The first 16 stores that opened on June 1, 1927, were located primarily on back streets – a pattern that would continue for decades. Most were drab and resembled jails more than stores.

Product selection was limited and kept in back rooms. Purchases were wrapped in brown paper bags. Clerks had no product knowledge training and were forbidden to recommend products.

Citizens were issued permits and their purchases were recorded, the better to alert staff to possible excess.

Sales in the first full fiscal year (ending October 31, 1928) amounted to $34 million, yielding a dividend to the province of $7.2 million.

Contrast that if you will with today's LCBO....

Stores are bright, clean and inviting, winning awards in national and international design competitions. Guided by extensive market research, we ensure they are well located, highly visible and accessible, with services customers have told us they want.

Our friendly, helpful employees have extensive training in product knowledge and customer service, and can help customers find products to suit every taste and budget. They can suggest food and drink matches and help customers plan events large and small.

Products are well displayed, often accompanied by informative tasting notes. We offer AIR MILES Rewards, limited time offers and value-adds on certain products, and accept credit and debit cards. Stores are open on Sundays, with extended hours in many locations. We publish an acclaimed consumer magazine, *FOOD & DRINK*, and bring to life in our stores the entertaining ideas it offers.

Our selection is far broader than it used to be. The first product guide we issued in 1927 was 13 pages long; the most recent, Summer 2002, lists 84 pages of products, sourced from more than 60 countries. Our domestic selection is far more varied too, thanks to the impressive growth and development of the Ontario wine industry.

We don't control the sale of beverage alcohol as rigidly as we did in 1927. We now promote the moderate consumption of alcohol in the context of entertaining and a balanced lifestyle. But we are no less vigilant when it comes to sales to minors or to people who appear intoxicated. As you will read elsewhere in this report, we challenged more than 1.2 million would-be customers because they appeared underage or intoxicated, or were believed to be buying for underage or intoxicated persons. We also work in many ways, and with many partners, to promote responsible drinking and curb impaired driving.

I am equally pleased to note how things have changed on the business side. Once a hidebound, lumbering bureaucracy – which as recently as 1988 owned nary a computer – the

LCBO has reinvented itself as a dynamic and innovative retailer, a provincial government enterprise that is run in a very businesslike fashion.

We constantly look for ways to become more efficient and reduce operating expenses. We use the latest technology to improve our ordering practices, automate warehouse operations and flow product more quickly through the system. We have embraced private-sector disciplines such as strategic planning and scorecards to gauge and improve our performance in key areas.

Thanks to the efforts of some 6,500 staff, we grew our sales in fiscal 2001-02 to just under $3 billion, and are almost certain to break that mark in fiscal 2002-03. And we recorded our seventh straight record dividend – $905 million, not including taxes. If you add the Provincial Sales Tax, federal excise taxes, customs duties, GST and municipal taxes we remitted to all levels of government, our contribution totalled more than $1.55 billion, which supports a wide range of important government social programs, services and capital projects.

That is certainly a long way from 1927.

Much of the credit for the LCBO's transformation goes to a man who retired at the end of 2001 – Chief Operating Officer Larry Gee. Larry spent his entire career in retail, coming to us after some 25 years with Dominion Stores. More than any other individual, he was responsible for turning the LCBO from a control-oriented distributor to a customer-focused retailer, where shoppers could come in search of entertaining and gifting ideas. We changed more in the 13 years Larry was with us than in the 60 years before he arrived, and we and our customers owe him a great debt of thanks for his vision and determination to achieve it.

We are fortunate indeed to have as our new President and COO a man of equal retail experience: Bob Peter, the former President of the Bay. Bob is a strong and capable leader, with clear ideas as to how to continue improving LCBO operations, which he shares on the following page. He is dedicated to building on the success the LCBO enjoyed under Larry Gee, and I will assist him in succeeding at that goal.

As entertaining as it has been to look back on the LCBO's past – and Ontario's – it is the future that I would like to reflect on in closing.

The LCBO has a dedicated and knowledgeable workforce, which ratified in July a new collective agreement that was fair, reasonable and fiscally prudent. Together, we will continue to improve customer service; upgrade store environments; improve efficiency wherever possible; and offer a product assortment that is broad, with a consistent core selection of the most popular brands, yet tailored to local tastes. We will strive to meet and exceed the expectations of our customers, our partners in social responsibility and our owners: the government and taxpayers of Ontario.

Andrew S. Brandt
*Chair and Chief Executive Officer*
*Toronto, Ontario*
*August 2002*

# MESSAGE FROM THE PRESIDENT AND COO

I came on board at a very exciting time in LCBO history. My first day on the job – November 5, 2001 – coincided with the opening of the 2001 Strategic Management Conference, an annual event that brings together the most senior managers in the organization to gauge LCBO's progress against its long-term strategic plan and, in this case, to lay the groundwork for the next five-year plan. (For more on this, please see page 19.)

The more I observed, the more I came to appreciate how far the LCBO has come over the past 11 years, led by Chair and CEO Andy Brandt and by my predecessor as Chief Operating Officer, Larry Gee.

With the support of a diligent and involved Board, they and the employees of the LCBO have fashioned a remarkable success story, turning a staid bureaucracy into a dynamic retailer. Having spent more than 30 years in Canadian retail, I can tell you the LCBO is closely watched by many other major corporations, who aren't beyond borrowing ideas from this innovative government enterprise.

In the weeks following the conference, I visited stores, warehouses and offices across the LCBO network to learn first-hand what was working well and what could be enhanced. Everywhere I went I was impressed by the knowledge and dedication of our employees, by their commitment to the community and public they serve, and by their willingness to embrace and implement change.

While much has been done since the late 1980s to improve the LCBO shopping experience, it was clear there was room for improvement in such areas as inventory management and product flow.

In too many stores and warehouses, stock on hand exceeded what might be needed in weeks or even months ahead. Orders were not well aligned with highly predictable sales patterns, with its peaks at Christmas and Easter. As a result, LCBO was paying needlessly high costs to store excess inventory, placing pressure on warehouse space, and forcing Retail staff to spend too much of their time moving product around back rooms.

We are now working hard to reduce excess inventory and improve the flow of product throughout the supply chain. Web-based ordering software, for example, is helping stores and category managers reduce back-room inventory significantly, while keeping shelves and stores ready for business. (For more on this initiative, please see page 35.)

As a result of these early efforts, year-end inventory was down from $260.6 million in 2000-01 to $226.3 million in 2001-02. Total inventory turns rose from 5.3 in 2000-01 to 5.9 in 2001-02, surpassing the target of 5.5. And this is just the beginning.

To further increase inventory efficiencies, we will ensure all stores have a core assortment of top-selling brands, along with a portfolio of products tailored to local tastes. We are also looking for other ways to increase efficiency and reduce operating costs. For example, we are helping store managers to better match staffing levels in retail stores to customer traffic patterns.

One thing our stakeholders can be sure of: no matter how far LCBO has come in the past 75 years, its employees will never rest on past success. We take nothing for granted. We will continue to identify and act on every opportunity to improve our operations and efficiency, so that we remain a leader in customer service and social responsibility, and one of Ontario's greatest revenue contributors.

Bob Peter
*President and Chief Operating Officer*
*Toronto, Ontario*
*August 2002*

LCBO

The Source for Entertaining Ideas

Andrew S. Brandt
Chair & Chief
Executive Officer

55 Lakeshore Blvd. East
Toronto, Ontario
M5E 1A4

Tel.: 416·864·2519
Fax: 416·864·2476

October, 2002

Dear LCBO Shareholder:

On June 1, 2002, the LCBO marked its 75th anniversary, celebrating 75 years of service to the people of Ontario: service that has evolved over the years to keep pace with the changing expectations of consumers, taxpayers and government, while remaining consistently profitable and responsible.

As our Annual Report for 2001-02 shows, there was much to celebrate during the fiscal year in question. Entitled *Our Seventh Straight Record Year*, it describes how the LCBO transferred a record $905 million dividend to the province – an increase of $55 million over last year's record and $255 million more than in fiscal 1990-91, my first year as Chair and CEO. For the fourth straight year, the LCBO's total transfer – its dividend and provincial sales tax combined – topped $1 billion.

Key factors behind this success include knowledgeable and helpful staff, store upgrades, in-store promotions, integrated marketing and other customer service enhancements, growing customer appreciation of premium products, improved efficiency and productivity, cost control and reductions in excess inventory, and excellent support from our suppliers.

We continued to outperform comparable provincial liquor jurisdictions in both volume and revenue growth. We also outperformed the Ontario and Canadian retail sectors as a whole.

This year's Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to meet and exceed the expectations of its stakeholders. We also highlight the many ways in which we help promote responsible drinking, including innovative advertising, strong strategic partnerships, and our Challenge and Refusal program. In fiscal 2001-02, our employees challenged more than 1.2 million would-be customers who appeared intoxicated or could not provide valid ID and refused service to nearly 77,000.

With the support of the government, and an involved and experienced Board, we intend to continue to improve customer service, financial performance and operational efficiency. We expect to transfer a dividend of $975 million in fiscal 2002-03, which would mark an eighth straight record year, and place us well ahead of the financial targets established in our current five-year strategic plan.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

# CORPORATE GOVERNANCE

## Serving our customers and stakeholders

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. Regulatory responsibility for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery – previously held by the LCBO – was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties
- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

As an operational enterprise of the provincial government, we are not required to disclose our corporate governance practices, as are companies listed on the Toronto Stock Exchange. We believe, however, that effective corporate governance and accountability are essential to fulfilling our mandate, and have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Consumer and Business Services
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and Minister of Consumer and Business Services. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business operations, current strategies and issues, as well as visits to LCBO facilities. New Members also meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

## The strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see page 19.

## Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management
- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Members of the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

The Committee meets at least twice a year.

## Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## Health and safety

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

## Store Planning and Development Committee

This is a staff committee that reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

## Listings Appeals Committee

The LCBO has a Listings Appeals Committee that reviews appeals of denials of listing applications and decisions as to products that are delisted from sale through the LCBO.

## Governance of the LCBO differs from private-sector corporations

In public companies, boards of directors usually have a number of key responsibilities that they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

# LCBO CELEBRATES 75 YEARS OF SERVICE

Just after 10 a.m. on June 1, 1927, Mr. W. E. Hurst stepped up to the counter of LCBO Store 1, then located at the corner of Church and Lombard streets in downtown Toronto, and plunked down a gold five-dollar coin.

With that first transaction, Ontario's temperance era had come to an end. The Liquor Control Board of Ontario was officially open for business.

The rest, as they say, is history. A proud history: 75 years of responsible and profitable service to the people of Ontario, culminating in seven straight record dividend transfers to support programs and services that benefit all taxpayers.

Following are some of the highlights in the transformation of the LCBO from its early days as a control-oriented distributor to an innovative, caring retailer that helps people across Ontario entertain easily and responsibly.

- **1927 –** The newly established LCBO opens 16 stores, three mail-order departments and four warehouses. Liquor permits (costing $2) are required to purchase alcohol. The first 16 stores are in Toronto, Hamilton, London, Ottawa, Thunder Bay, Brockville and Kitchener. A total of 86 stores are opened before the end of the year.
- **1934 –** Hotel beverage rooms are licensed by LCBO to sell beer; dining rooms are licensed to sell wine and beer, but not liquor.
- **1935 –** Ontario wineries are allowed to operate one off-premise retail store.
- **1947 –** The Liquor Licence Board of Ontario (now the Alcohol and Gaming Commission of Ontario) takes over responsibility for regulating licensed premises from LCBO.
- **1961 –** Liquor permits to purchase alcohol are abolished. Customers are still required to fill out purchase slips when buying alcohol.
- **1962 –** New LCBO agency store program authorizes local retailers in Northern Ontario to sell beverage alcohol in communities too small to support regular liquor or beer stores.
- **1965 –** LCBO introduces its first wine consultants (now product consultants) in selected stores.
- **1968 –** LCBO training centre conducts first two-day wine-tasting seminar.
- **1969 –** First self-serve LCBO store opens in Weston, a suburb of Toronto.
- **1971 –** 40-oz. bottles, 80-oz. wine jugs and 2-oz. miniature bottles are introduced. Legal drinking age in Ontario is lowered to 18 from 21.
- **1972 –** Rare Wines and Spirits store, the forerunner of VINTAGES, opens at LCBO's Toronto Warehouse on Freeland Street.
- **1975 –** LCBO incorporated as a Crown corporation.
- **1978 –** Legal drinking age in Ontario is raised to 19.
- **1985 –** LCBO introduces its first merchandising program. The Innovate, Merchandise and Generate Enthusiasm (IMAGE) program encourages suppliers to promote products with in-store displays. LCBO's largest warehouse, Durham Logistics Facility, opens. The first VINTAGES outlet opens at LCBO's Queens Quay Store in Toronto. It is the first LCBO outlet to offer product samplings.
- **1986 –** LCBO unveils its first corporate logo.
- **1987 –** Regular product samplings introduced at selected LCBO stores throughout the province. LCBO applies customer research for the first time to improve its retail network, product marketing and customer service.
- **1988 –** LCBO launches a strategy to change from control-based distributor to customer-focused retailer following a management study. LCBO introduces free customer magazine, *LCBO Today*, to provide regular information on products and services.
- **1989 –** The new $1.7-million LCBO Quality Assurance laboratory opens. LCBO consignment warehouse is established to help agents import products not available at LCBO, for sale to licensed establishments and individuals. Province-wide, bilingual, toll-free LCBO Infoline (1-800-ONT-LCBO) is launched to answer public inquiries about LCBO operations and services.
- **1990 –** First Ontario VQA (Vintners Quality Alliance) wines appear in LCBO stores, signifying a new era of quality for domestic wine industry.
- **1991 –** Top 140 LCBO stores are revamped to make them more customer-friendly and portray a consistent corporate image. A new computer system links all LCBO stores, warehouses and Head Office and a computerized inventory and cash register system is introduced throughout the LCBO network.

- **1992 –** First LCBO mini-store opens at Toronto's First Canadian Place. Refrigerated displays offering chilled products are introduced in LCBO stores. Tutored tastings are offered in selected stores. LCBO forms illegal alcohol task force to combat illicit alcohol.
- **1993 –** New LCBO Shop the World marketing program presents major in-store thematic promotions throughout the year. The LCBO introduces its Value-Add program allowing suppliers to sell products with add-ons such as miniature bottles and accessories. *LCBO Today* is revamped and renamed *FOOD & DRINK,* offering more food and beverage information and responsible hosting tips.
- **1994 –** LCBO tests debit/credit card purchases in selected stores. LCBO introduces three-level product knowledge training program for its employees. New VINTAGES *Classics Catalogue* accepts phone or fax orders for world's finest and rarest wines and spirits. In an LCBO survey, customers rate staff friendliness and helpfulness 9.1 out of 10. Last counter-service stores are converted to self-serve operations.
- **1995 –** LCBO introduces Limited Time Offer program, offering savings on selected products. *Financial Post Magazine* ranks LCBO as Canada's most profitable company. The first LCBO store to feature a demonstration kitchen opens in the Manulife Centre in Toronto, featuring many aspects of the "infotainment" the LCBO now offers. An LCBO ethnic kiosk opens in Markham to serve the Chinese community.
- **1996 –** LCBO introduces BYID (Bring Your Identification) photo ID card to make it easier to identify customers of legal drinking age. Under new Check 25 program, LCBO employees ask anyone appearing 25 years or younger for proof of age. AIR MILES Rewards are introduced at LCBO stores. LCBO transfers $680 million to the Ontario Treasury, the largest one-year transfer ever. Six more record transfers will follow.
- **1997 –** LCBO is named Innovative Retailer of the Year and Socially Responsible Retailer of the Year in the large-store category by Retail Council of Canada. The Innovative Retailer of the Year Award acknowledges overall industry leadership and innovative approaches to customer and employee relations. The Socially Responsible Retailer of the Year Award recognizes the LCBO's efforts in promoting responsible use of beverage alcohol. LCBO stores open on Sundays year-round after several successful pilots.
- **1998 –** The Retail Council of Canada names LCBO Innovative Retailer of the Year in the large-store category for the second year in a row. LCBO adopts a whole branding strategy and brand vision: The Source for Entertaining Ideas. LCBO raises $227,000 for Canadian Commonwealth Games athletes during its Quest For Glory promotion.
- **1999 –** LCBO opens Canada's largest liquor store in the Bayview Village Mall in Toronto. The 20,000-sq.-ft. store wins the Best Layout and Design Award from the Retail Council of Canada. LCBO, in partnership with MADD Canada, launches $2.4 million responsible drinking advertising campaign that features 200 billboards with photographs of crashed vehicles, and in some cases actual crashed vehicles, and the message, "Drinking and Driving is No Accident."
- **2000 –** The largest-ever LCBO promotion, Welcome Home to Ontario Wine Country, is launched. The month-long promotion showcases 74 Ontario wines, including 49 VQA wines. Under the Wonderful Ontario Wines training program, all LCBO employees are invited to tour Ontario wine regions to increase their knowledge of domestic products. New 17,600-sq.-ft. flagship store opens on Rideau Street in Ottawa. Like the Bayview Village store, it offers the complete range of LCBO products and services, including LCBO's first separate VINTAGES tasting room. Ontario Chamber of Commerce honours LCBO with Outstanding Business Achievement Award.
- **2001 –** LCBO's Challenge and Refusal program results in more than one million individuals challenged and 80,000 refused service for failing to provide valid proof of age or for appearing to be intoxicated. Groundbreaking ceremony marks the start of the restoration of Toronto's Store 10, housed in the former North Toronto Station, a historic building with grand architectural features, including marble walls, a 40-ft. ceiling, brass wickets and a clock tower. The 21,000-sq.-ft. store will be LCBO's largest and the biggest liquor store in Canada.
- **2002 –** LCBO delivers seventh straight record dividend to Ontario government, an all-time high of $905 million. Together with $275 million in Provincial Sales Tax and $373 million in federal and municipal taxes, LCBO remits $1.55 billion to all levels of government. On June 1, some 383 stores mark the LCBO's 75th anniversary with customer appreciation events, generating goodwill and positive media coverage across the province.

## The LCBO senior management team

*Front row, from left to right: Bill Kennedy, Executive Director, Corporate Communications; Barry O'Brien, Director, Corporate Affairs; Mary Fitzpatrick, Senior VP, General Counsel & Corporate Secretary; Bob Peter, President and COO; Gar Sherwood, Senior VP Retail.*

*Back row, from left to right: Gerry Ker, Director, Corporate Policy; Alex Browning, Senior VP Finance & Administration; Hugh Kelly, Senior VP Information Technology; Jackie Bonic, VP Store Development & Real Estate; Nancy Cardinal, VP Marketing Communications; Murray Kane, Senior VP Human Resources; Tamara Burns, VP Merchandising; Dr. George Soleas, VP Quality Assurance; Shelley Sutton, Director, Strategic Planning; Bob Downey, Senior VP Sales & Marketing; Ian Martin, Senior VP Logistics; Tom Wilson, VP VINTAGES; Roy Ecker, VP Store Operations.*

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

Canadian securities regulations require public companies to include a discussion of operating results in their annual reports, along with annual financial statements. As a provincial government operational enterprise, LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

### HIGHLIGHTS

(value in $000s)

| | 2000-01 | 2001-02 |
|---|---|---|
| Dividend to Government | $850,000 | $905,000 |
| Per cent increase | 6.3 | 6.5 |
| Net sales and other income | $2,734,937 | $2,939,563 |
| Per cent increase | 7.3 | 7.5 |
| Operating Expenses | $468,090 | $489,633 |
| Net Income | $876,272 | $920,912 |
| Per cent increase | 3.6 | 5.1 |

### Dividend increases for eighth straight year

We transferred a record $905-million dividend to government in 2001-02, a $55-million increase over last year. This is the eighth straight year we've increased our dividend and our seventh straight record year.

The following table gives a 10-year history of the LCBO dividend paid to the province of Ontario.

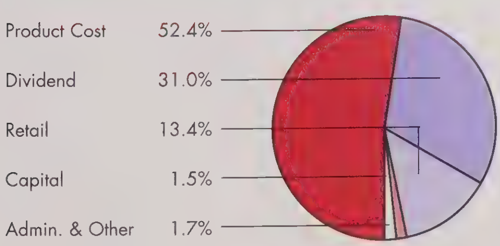
The dividend has risen steadily in the past decade with the exception of a slight dip in 1993-94. Since then, the dividend has grown by 54.7 per cent or $320 million.

### Billion-dollar payout for fourth straight year

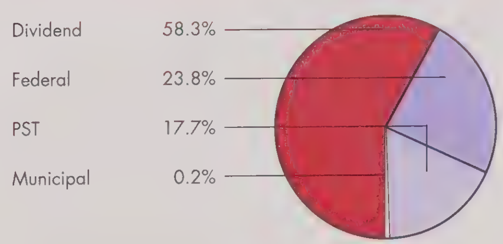
The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $275 million in 2001-02. If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the fourth straight year, giving our owners – the Government of Ontario – a total of $1.18 billion. This is 6.8 per cent more than last year. LCBO also remitted $83 million to the federal government in GST and $3.4 million in property taxes to municipal governments.

| Dividend | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($000,000s) | $615 | $585 | $630 | $680 | $730 | $745 | $780 | $800 | $850 | $905 |

### BREAKDOWN OF $1 IN NET SALES




### LCBO PAYMENTS TO GOVERNMENT



Counting federal excise taxes and customs duties, our contribution to all levels of government totalled more than $1.55 billion.

## LCBO outperforms retail sector

Despite a slow economy and fragile consumer confidence, LCBO net sales rose by $206 million over last year, to $2.92 billion – an increase of 7.6 per cent – setting another sales record.

The net sales growth of 7.6 per cent was impressive, especially in light of the economic fallout from the tragedy of September 11th and a slowing economy. LCBO managed to surpass its sales growth target of 4.6 per cent set at the end of last year. Even though people dined out less, the cocooning trend encouraged consumers to entertain at home, which in turn increased store sales in fiscal 2001-02.

LCBO led all liquor jurisdictions in Canada in volume and value growth. LCBO volume sales grew by 10.0 per cent while dollar sales grew by 7.6 per cent. Comparatively, Societé des Alcools du Quebec (SAQ) grew at a slower pace. SAQ volume sales grew by 5.3 per cent while dollar sales grew by 6.8 per cent.

Total retail sector sales in Canada grew 4.5 per cent between 2000-01 and 2001-02. According to Statistics Canada, Ontario underperformed the national average with retail sales growing by 2.9 per cent. LCBO was able to grow sales by 7.6 per cent, outperforming total retail sales growth on both the national and provincial levels. This was achieved in spite of a general slowdown in the retail sector.

## Sales strongest in Eastern and Western regions

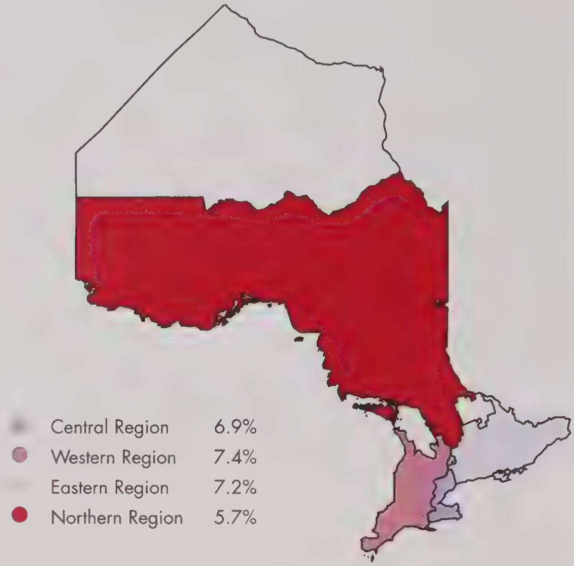
All four LCBO retail regions experienced strong sales growth in fiscal 2001-02: As the map on this page shows, the Western and Eastern regions led the way.

## Retail sales continue to be strong

LCBO retail sales, which we define as sales to home consumers, grew by 7.7 per cent over last year and accounted for 79.3 per cent of the LCBO's total net sales, amounting to $2.32 billion.

Sales to The Beer Store (TBS) increased by 33.6 per cent, due to continuing growth in the sale of imported beer. Sales to TBS accounted for 5.5 per cent of total LCBO net sales.

Licensee sales accounted for 12.8 per cent of total net sales in fiscal 2001-02, sales to duty-free operators for 1.2 per cent, and sales to agency stores for 1.0 per cent. (In fiscal 2002-03, more than 70 new agency stores are scheduled to open in rural communities that do not have a large enough population base to support an LCBO or Beer Store.)




The events of September 11th had a significant impact on sales to licensees and duty-free operators. Sales to licensees were below plan by 9.6 per cent while duty-free sales fell short of the planned growth of 7.3 per cent. Compared to actual sales last year, sales to licensees were down slightly by 0.3 per cent and duty-free sales were lower by 1.4 per cent.

In 1999, a new program was established that allowed Ontario wineries to deliver VQA products directly to licensees. In fiscal 2001-02, VQA direct delivery by Ontario wineries increased by 68.3 per cent; LCBO domestic wine sales to licensees fell by 13.1 per cent in the same timeframe.

Combined, these wholesale sales represent 20.7 per cent of total LCBO net sales, up from 18.9 per cent five years ago.

## LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store, Ontario winery retail stores (WRS), agency stores, on-site brewery stores, duty-free operators and on-site distillery stores. There are currently 1,553 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2002 (percentages have been rounded):

- 599 LCBO stores (38.6 per cent of all outlets)*
- 431 Beer Stores (27.7 per cent of all outlets)
- 364 Ontario winery retail stores (23.4 per cent of all outlets)
- 105 agency stores (6.8 per cent of all outlets)
- 36 on-site brewery stores (2.3 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 4 airport duty-free stores (0.3 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets).

*If you combine the LCBO's 599 stores and Ontario's 105 agency stores, the market share is approximately 45 per cent.

## Changes in market share

The total Ontario beverage alcohol marketplace amounted to approximately $7.5 billion in gross sales in 2001-02. The LCBO's market share by value rose from 44.2 per cent in 2000-01 to 45.1 per cent in 2001-02. Winery retail stores experienced a significant increase in sales, which drove their market share up from 2.1 per cent to 2.3 per cent over last year. While TBS's sales continued to climb, market share declined from 33.2 per cent in 2000-01 to 31.5 per cent.

## Other legal sales

Other legal sales such as cross-border and brew-pub sales continue to be relatively stable. Total sales rose by 1.6 per cent in 2001-02. The market share for other legal sales dropped from 15.5 per cent to 15.1 per cent in 2001-02. This is primarily a result of higher sales growth by the LCBO, TBS and WRS.

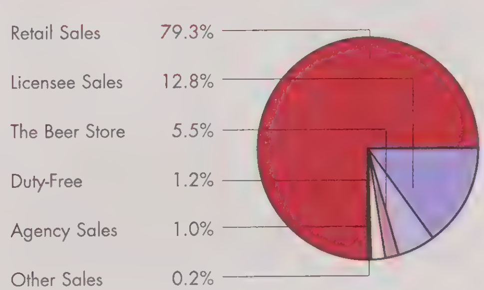
U-brew and U-vint establishments are estimated to have risen in market share from 10.9 per cent in 2000-01 to 11.1 per cent in 2001-02. The number of licensed U-brews and U-vints in the province has grown over the past five years, from 454 registered establishments to 665.

## Illegal competition

Since 1993-94, the estimated size of the illegal market in Ontario had been falling steadily. In 2001-02, however, illegal alcohol rose slightly from an estimated $406 million, or 5.9 per cent of the total Ontario beverage alcohol market in 2000-01, to an estimated $432 million in sales, or approximately 6.0 per cent of the market. This slight increase may be attributed to a relatively weak economy.

**BREAKDOWN OF LCBO SALES 1997-98**


**BREAKDOWN OF LCBO SALES 2001-02**



# Income statement

## Net income up by $44.6 million

Net income for fiscal 2001-02 was $921 million, almost $45 million higher than last year, representing a 5.1-per-cent increase.

The net-income-to-net-sales ratio was 31.5 per cent, surpassing the 2001-02 target of 31.3 per cent but lower than last year's ratio of 32.3 per cent.

LCBO's expense-to-net-sales ratio surpassed expectations. It was originally forecast at 17.0 per cent and came in at 16.7 per cent in fiscal 2001-02. More detail is provided in the section on productivity ratios.

LCBO's net sales growth of 7.6 per cent was excellent, particularly in light of the economic slowdown this year. It surpassed the target of 4.6 per cent set at the end of last year.

## Gross margin up 5.1 per cent

Gross margin grew a healthy $67.5 million to $1.39 billion in fiscal 2001-02. This exceeded the planned target by 2.1 per cent and compared to last year, gross margin was higher by 5.1 per cent.

Gross margin as a percentage of net sales for 2001-02 was 47.6 per cent, below last year's value of 48.8 per cent, and slightly below the target of 48.0 per cent. The decline in the gross-margin-to-net-sales ratio reflects the continuing shift in the sales product mix from spirits towards beer, coolers and wine.

For every dollar of net sales, our gross margin return on spirits is $0.57. On wine, it is $0.49 and on beer $0.29. Beer and wine now represent 51 per cent of total net sales, up from 50 per cent last year and 47 per cent five years ago. The increased weighting of beer and wine in the product mix means an ever-greater proportion of our incremental sales dollars come from the sale of lower-margin product lines.

The growth in the wholesale market also added to the lower gross margin ratio, because of the discounts provided on these sales.


*Customer Service Representative Mike Markovinovich uses a radio frequency scanner to update inventory information at the LCBO's GTA Service Centre, a new facility designed to improve service to licensees.*

## Productivity ratios monitored

To track expenses and see where improvements are needed, LCBO sets targets for many productivity ratios each year. For example, the store-expense-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary-expense-to-sales ratio means that staff are becoming more productive.

## Retail productivity

LCBO had an excellent year by meeting seven of eight retail productivity targets set at the end of fiscal 2000-01.

LCBO's commitment to improving the store network, enhancing customer service and lowering store salary expenses led to significantly higher sales and increased productivity.

**Store salary to sales:** Store salaries were under budget by 1.1 per cent, which helped us surpass the target of 7.7 per cent, ending at 7.4 per cent.

**Store expenses as a percentage of sales:** Higher controllable labour costs led to slightly higher store expenses but still resulted in a ratio of 10.4 per cent, beating the target of 10.6 per cent.

**Store salary per unit sold:** The combination of store salary costs coming under budget and higher store unit sales resulted in the ratio coming in well below target at $0.80.

**Store expenses per unit sold:** Came in at $1.13, below the target of $1.18. This was primarily due to holding the line on store salary and benefit costs in the fiscal year.

**Unit sales per hour:** Came in at 28.6, exceeding the target of 26.8. This is due to higher than expected units sold and fewer staff hours.

**Sales per customer:** At $28.10, this was up from last year's result of $27.86 but below the target of $28.37. This was the only retail productivity target missed.

**Sales per square foot:** Up from last year's $1,693 to $1,752, exceeding the target of $1,720. This is due to consumers' higher expenditures.

### RETAIL – FINANCIAL & OPERATING HIGHLIGHTS

| | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|---|---|---|---|---|
| Store salaries to sales | 7.8% | 7.8% | 7.6% | 7.9% | 7.4% |
| Store expenses as % of sales | 10.8% | 10.6% | 10.5% | 11.0% | 10.4% |
| Store salary per unit sold | $0.84 | $0.85 | $0.84 | $0.87 | $0.80 |
| Store expenses per unit sold | $1.16 | $1.16 | $1.17 | $1.22 | $1.13 |
| Unit sales per hour | 25.4 | 25.8 | 25.7 | 25.5 | 28.6 |
| Sales per customer | $25.75 | $26.19 | $27.19 | $27.86 | $28.10 |
| Sales per square foot | $1,452 | $1,546 | $1,674 | $1,693 | $1,752 |

## Logistics productivity

The logistics side of the business also performed well, meeting or surpassing six of seven productivity targets.

**Warehouse salary cost per case:** Due to higher than expected salary and benefit costs, this year's ratio came in at $0.76, missing the target of $0.72.

**Warehouse cost per case:** This ratio met the target of $1.01, coming in at $0.97 per case.

**Logistics cases per hour:** Bettered both the target of 67 and last year's 66, coming in at 70 cases per hour.

**Logistics cost per case handled:** Higher by $0.02 per case compared to last year but exceeded the target of $0.63 by a wide margin, coming in at $0.59 per case handled.

**Freight expense per case:** Improved significantly compared to both last year's value and the target of $1.26, coming in at $1.11 per case.

**Inbound freight as a percentage of sales:** This ratio came in at 1.9 per cent, below last year's mark of 2.0 per cent and the target of 2.1 per cent, which reflected our expectation that fuel costs would continue to remain at high levels throughout fiscal 2001-02.

**Outbound freight as a percentage of sales:** Met its target by coming in at 0.6 per cent, the same as in 2000-01.

### LOGISTICS – FINANCIAL & OPERATING HIGHLIGHTS

| | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|---|---|---|---|---|
| Warehouse salary cost per case | $0.74 | $0.74 | $0.73 | $0.73 | $0.76 |
| Warehouse cost per case | $0.98 | $0.91 | $0.93 | $0.90 | $0.97 |
| Logistics cases per hour | 59 | 62 | 64 | 66 | 70 |
| Logistics cost per case handled | $0.63 | $0.58 | $0.59 | $0.57 | $0.59 |
| Freight expense per case | $1.15 | $1.07 | $1.13 | $1.16 | $1.11 |
| Inbound freight as % of sales | 2.0% | 1.9% | 2.0% | 2.0% | 1.9% |
| Outbound freight as % of sales | 0.5% | 0.5% | 0.6% | 0.6% | 0.6% |

## Operating expenses decline

The administrative expense ratio remained unchanged from 2000-01, coming in at 1.3 per cent. This was below the target of 1.4 per cent set for the fiscal year.

Operating expenses as a percentage of net sales improved from 17.1 per cent in 2000-01 to 16.7 per cent in 2001-02, bettering the target of 17.0 per cent. Control of salary and benefit expenses was the main reason for this improvement.

# Balance Sheet

## Liabilities down

Liabilities, consisting of accounts payable and accrued benefit obligations, were down from $249.4 million in 2000-01 to $248.1 million in 2001-02.

## Year-end inventories down

Year-end inventory was down from $260.6 million in 2000-01 to $226.3 million in 2001-02. Total inventory turns rose from 5.3 in 2000-01 to 5.9 in 2001-02, and surpassed the target of 5.5. Closer control over inventory contributed to this improvement.

## More cash on hand

LCBO's cash position increased from $48.0 million in 2000-01 to $80.1 million at the end of 2001-02. Less inventory on hand increased our cash flow.

### CAPITAL EXPENDITURES

(values in $000s, numbers rounded)

| | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 |
|---|---|---|---|---|---|
| Retail | 13,008 | 17,730 | 23,112 | 39,984 | 31,458 |
| Information Technology | 8,472 | 17,834 | 24,895 | 7,375 | 14,259 |
| Logistics | 1,213 | 1,658 | 1,760 | 2,066 | 3,493 |
| Marketing Programs | 1,989 | 2,558 | 2,434 | 1,231 | 1,730 |
| Other Administrative Divisions | 917 | 1,179 | 1,463 | 2,409 | 1,347 |
| Systems Improvements | N/A | N/A | 808 | 2,624 | 3,448 |
| Total Capital Expenditures | 25,599 | 40,959 | 54,472 | 55,689 | 55,735 |

As part of our five-year strategic plan to make LCBO the Source for Entertaining Ideas, most of the capital budget continues to be allocated to upgrading the retail store network.

Fiscal 2001-02 saw a significant increase in information technology investment. This reflects the development of the Integrated Store Environment (ISE) project, which includes the new point-of-sale (POS) system and sales audit system. The investment in our information technology infrastructure reflects our commitment to improving customer service by using the latest technology to increase our efficiency in processing transactions. (For more information, please see Leveraging Technology, page 35.)

## Looking ahead

In fiscal 2002-03 the successful identification and management of key issues in retail and logistics will result in a forecasted net sales increase of 5.1 per cent or $149.8 million to $3.1 billion. The forecast in net sales is more aggressive than the forecast for Ontario retail sales, which are expected to grow between 1.0 and 1.5 per cent.

As we enter the fifth year of our current long-term plan in 2002-03, we continue to look to highlight areas for improvement, focusing on expense control. To better manage salary costs in the next fiscal year, we will work to better match staffing levels in retail stores to customer traffic patterns. To further increase inventory efficiencies, we have put in place and are monitoring updated inventory practices. We also intend to roll out a plan to ensure all stores have a core assortment of top-selling brands, along with a portfolio of products tailored to local tastes. In order to consolidate logistics in our Toronto and Durham warehouses for improved efficiencies, LCBO is exiting a rented Peel warehouse, which is being sublet.

Divisional expenses are expected to grow by 3.4 per cent. A number of factors will contribute to this increase, including higher rent, taxes and utility expenses; increased labour costs in our logistics system to support supply chain initiatives and reduce our need to expand warehouse space and spend capital to do so; training costs resulting from the implementation of upgraded point-of-sale and Web-based ordering systems; higher benefits costs as pension holidays come to an end; and increased spending on advertising. The increase in advertising will be largely offset by co-op funding contributions from our suppliers. The LCBO expects that some of its increased expenditures will result in significant cost savings. For example, investments in Web-based ordering software and related training are already helping to reduce costs associated with the storage and handling of excess inventory.


*Moving more cases directly from delivery trucks to store shelves frees up Retail staff to spend more time serving customers.*

Volume sales are expected to increase by 5.7 per cent next year while gross margin percentage is expected to continue its decline under the combined market pressures of stronger sales of lower-margin wine and beers and fixed mark-up rates, coming in at 47.2 per cent. Lower gross margin rates will drive net income down to 31.1 per cent of net sales as net income increases by 3.6 per cent from $921 million to $954 million.

In certain communities where beer sales do not reach levels high enough to support a Beer Store, LCBO has operated "combo" stores, which sell all sizes of domestic beer, including cases of 12 and 24. (In other communities, LCBO sells only six-packs of domestic beer.) In fiscal 2000-01, under an agreement between LCBO and TBS, Beer Stores opened in four such communities and LCBO combo stores converted to regular operations. Recent analysis shows domestic beer sales volumes at these former combo stores fell by more than 90 per cent. While no such conversions took place in fiscal 2001-02, several more are expected in 2002-03.

Our product costs as a percentage of net sales are projected to rise slightly from 52.4 per cent in 2001-02 to 52.8 per cent in 2002-03.

Our dividend to the Government of Ontario should increase for the ninth consecutive year to $975 million, an increase of $70 million or 7.7 per cent. Having achieved a $905-million dividend in fiscal 2001-02, we have now transferred $179 million over plan in the first four years of the current five-year plan.

Our expense-to-net-sales ratio came in at 16.7 per cent in fiscal 2001-02, bettering the target of 17.0 per cent. This ratio is forecast to come in at 16.5 per cent in 2002-03, as a result of continued cost containment and efficiency measures.

*Ottawa employees Kimberley Denison, Paul Carriere, Natalie Saikaley, Les Taller, Michelle Bouchard and Glen Gartshore were featured in a poster telling customers how LCBO employees challenged more than 1.2 million would-be customers in fiscal 2001-02, because they appeared underage or intoxicated, or were believed to be buying alcohol for others who were underage or intoxicated.*

# PLANNING FOR SUCCESS

Fiscal 2001-02 was the fourth year in the LCBO's current five-year strategic plan. By all measures, the plan has been a great success, as net sales and dividends to the province have significantly exceeded forecasts.

Since the late 1980s, the LCBO has used strategic planning to help it develop, reach and often surpass business goals.

Five-year plans map out our long-term strategies for profitable growth; a rigorous annual planning process helps us keep pace with today's rapidly evolving marketplace.

When the current five-year plan was developed in 1997, senior LCBO managers established where the business was; identified where it should move to; and developed an action plan to get there.

From this process emerged a brand vision: the LCBO would strive to become more than a place to buy beverage alcohol. It would be Ontario's Source for Entertaining Ideas, helping customers entertain easily, yet adventurously, while maximizing profitability and promoting social responsibility.

At our Strategic Management Conference in November 2001, work began on the next five-year plan that will take the LCBO from 2003 to 2008. Guided by extensive research from our Customer Insights Group and bodies such as Statistics Canada, the LCBO's top managers analyzed the organization's strengths, weaknesses, opportunities and challenges that lie ahead. They reviewed key performance indicators and assessed trends in demographics, economics, retail and the beverage alcohol industry.

Here are some of the key questions asked at the conference, and follow-up sessions, to guide the development of the next five-year plan.

- What can the LCBO and the Ontario wine industry do together to build market share for quality domestic products?
- How can our employees better engage customers in dialogue about beverage alcohol? How do we ensure consistent service at every point of customer contact?
- Does our brand vision need refining or restating?
- What should our store network look like five years from now? How can we ensure LCBO stores are attractive and well-located, with the right mix of services to suit their trading area's customers?
- How should we allocate capital spending to maximize long-term profitable growth and return on investment?
- A key goal of our last plan was to tailor more products and services to the customers who provide the greatest growth opportunities. What does our research tell us about our progress toward that goal? What do we know about our customers now that we didn't know then, and how should that guide any shift in focus?
- A huge demographic bulge – the so-called Echo Boomers – is now reaching legal drinking age, and will continue to do so over the next decade. Do we know what they want from the LCBO and can we deliver on that?
- How can we better collaborate with suppliers to synchronize our business goals?
- How can we continue to improve product flow, so that we can offer the best mix of products without carrying excess inventory, and free up Retail staff to spend more time serving the public and licensees?
- How can we leverage technology to reduce excess inventory and improve productivity?

Cross-functional teams are now working – often with input from the LCBO Board, the Ministry of Consumer and Business Services and suppliers – to answer these questions and to develop a five-year plan that encompasses growth and investment strategies, as well as productivity improvement.

When the new plan is complete in the fall of 2002, it is expected to provide the same strong foundation for future success as the current plan has in its first four years. It will serve as the LCBO's guide as it continues to improve customer service, product selection and store environments, as well as key support functions such as information technology, logistics and communications.

# WINES

## MISSION: TO PROVIDE LCBO CUSTOMERS WITH AN EXCEPTIONAL SELECTION OF QUALITY WINES AT AFFORDABLE PRICES

The Wines Category continued to grow in fiscal 2001-02, with value sales rising 4.9 per cent to $769 million, slightly better than the 4.5-per-cent growth of the year before.

Three key segments continued to drive growth, according to Category Director Tamara Burns (since promoted to VP Merchandising): red wine, premium price bands and wines from Australia.

Red wines are more popular than ever for the following reasons:

- media reports suggest they impart more health benefits to moderate drinkers than other beverage alcohol products
- as consumers become more sophisticated and knowledgeable, they tend to prefer red wines
- producers are making more approachable, fruit-forward wines.

Reds now hold 44.0 per cent of the Ontario wine market in value sales; whites hold 38.0 per cent; sparkling, fortified and other wines 14.0 per cent; and rosés 3.5 per cent. In 1995, by comparison, white wines held a 51.0-per-cent share.

Since 1995-96, sales of premium wines in the $10-$15 range have grown by 25.0 per cent a year and now claim 18.0 per cent of the General List wine market. Wines in the $15-$20 band increased by 11.7 per cent this year and now hold a 1.6-per-cent market share.

Australia continues to grow its share of Ontario's wine market. In the past five years, dollar sales have climbed by an average 29.0 per cent a year; market share in litres has gone from 3.0 per cent to 7.7 per cent, and in dollars from 4.0 per cent to 11.0 per cent. This success can be attributed to consumer preferences for red wines; the excellent value Australian wines offer for the money; a fruit-forward style that is consumer-friendly; and strong strategic planning and collaboration within the Australian industry.

Volume sales of Australian reds grew by 28.0 per cent last fiscal year; whites by 16.0 per cent. In value sales, the increases for red and white were 31.0 per cent and 18.6 per cent respectively.

## Italy leads Europe in growth

Apart from Australia, other countries that enjoyed growth in fiscal 2001-02 included: Italy (the only major producer in Europe whose volume sales are not declining), up 9.1 per cent in value and 7.8 per cent in volume; South Africa, up 12.7 per cent in value and 11.3 per cent in volume; Chile, up 7.6 per cent in value and 7.5 per cent in volume; Argentina, up 4.3 per cent in value and 7.3 per cent in volume; and the U.S., up 2.9 per cent in value and 3.1 per cent in volume.

France continued to lose market share in 2001-02, dropping from 45.3 per cent of European wine value sales to 43.3 per cent (volume share declined from 46.5 per cent to 44.8 per cent). While its dollar sales declined by 1.0 per cent and litre sales by 3.2 per cent, France remains the top-selling producer after Canada.

| Top 10 wine-producing countries by | Volume (Litres) | Value (Basic $) |
|---|---|---|
| Canada | 25,269,835 L | $199,653,599 |
| France | 15,421,527 L | $156,735,476 |
| Italy | 13,605,089 L | $129,220,975 |
| U.S.A. | 7,415,878 L | $ 74,944,707 |
| Australia | 6,210,906 L | $ 85,627,840 |
| Chile | 3,656,515 L | $ 37,199,824 |
| Germany | 1,946,921 L | $19,523,017 |
| Portugal | 1,548,809 L | $15,629,571 |
| Spain | 1,369,625 L | $15,667,735 |
| South Africa | 1,355,731 L | $13,783,844 |

## Domestic wines

Sales of domestic wines rose by 0.8 per cent in value and 0.5 per cent in volume, but these gains did not keep pace with the stronger growth shown by Australia and others.

Ontario wines bearing Vintners Quality Alliance (VQA) labels led domestic sales with increases of 5.1 per cent in volume and 5.2 per cent in value.

Ontario is well-positioned to build market share for its award-winning white wines, according to Burns: "Ontario can certainly take a leadership role with its Rieslings."

Ontario reds improve each year, but face tough competition from Australia and other New World producers.

Burns sees abundant opportunity for Ontario wineries to grow their business by educating consumers about the quality and value of their products; by fostering more winery tourism; and by producing more popular red wines made from Cabernet Sauvignon, Cabernet blends and Gamay. The LCBO is working with the industry to build market share for its products, including craft selections from smaller wineries. For more on LCBO's ongoing partnership with the Ontario wine industry, please see page 28.

## Looking ahead

Burns expects the following global trends to affect the Wines Category, and hence the LCBO consumer, in positive ways:

- overall improvements in the quality of product, packaging and value for money
- user-friendly displays and product information
- industry mergers and joint ventures that create new products and synergies among suppliers
- more wine country tourism, which offers consumers greater opportunity to learn more about wine from people who make it
- more effective strategic planning and marketing by winemakers around the world.

The Australian success story is expected to continue in fiscal 2002-03, boosted in part by an LCBO promotion called Aussie Stars. Other promotions will focus on Ontario wines (please see page 28), seasonal rosés, sparkling wines and food-friendly reds for barbecues.

The Wines Category will also focus on:

- flavoured wine drinks – varietal wines mixed with essences of fruit or lightly carbonated
- nouveau wines from Ontario, France and Italy
- additional sizes of key brands, such as the 1.5-L bottle of the best-selling wine in Ontario, Wolf Blass Yellow Label
- new red wines for consumers who are ready to trade up to higher price bands.

The category is also placing renewed emphasis on shelf and inventory management, to ensure stores are well stocked with the wines consumers want, for their own consumption or to give as gifts, from Ontario and all parts of the world.

# SPIRITS

## MISSION: TO DEVELOP THE SPIRITS CATEGORY INTO THE MOST DYNAMIC, INTERESTING AND EASIEST TO SHOP CATEGORY AT THE LCBO

Sales of spirits at LCBO in fiscal 2001-02 rose to $1.24 billion, 2.1 per cent more than the year before. This growth rate was lower than the previous two years, which averaged 5.5 per cent, but important nonetheless in a category that accounts for 45.7 per cent of LCBO net sales and 51.5 per cent of gross margin percentage. The Spirits Category leads all LCBO categories in profit contribution and average price per unit sold.

Among the factors that contributed to spirit growth this past fiscal year:

- LCBO retail employees know more about spirit products and are more comfortable discussing them
- LCBO promotions like "Just Add" showed customers how to entertain easily with spirit-based drinks
- more customers now embrace premium products
- suppliers continue to deliver appealing products in premium price bands
- Ontario's gift market grows every year, and spirit gift-packs form the lion's share of LCBO's holiday offerings
- improvements to the LCBO shopping experience have helped curtail the once-strong demand for smuggled spirits
- the weaker Canadian dollar has discouraged cross-border shopping.

The category is building on its past success by encouraging customers to shop its premium portfolios; encouraging more browsing; offering more product tastings; and offering more products in trial sizes (50 mL, 200 mL and 375 mL) at checkouts.

In the coming year, more tastings, promotions and product information will help showcase the diversity and versatility of spirits, says Category Director Shari Mogk-Edwards. "We see significant opportunities for growth by encouraging wine and beer buyers to experiment more with spirits."

## Best-selling spirits

In fiscal 2001-02, imported spirits showed higher growth (5.0 per cent) than domestic products (0.4 per cent).

While there was growth in most price bands from under $10 to over $99, the highest rates were for spirits priced from $75-$99, which grew by 9.9 per cent, and products priced over $100, which grew by 16.6 per cent.

Whisky remains the largest spirit subcategory by far, with sales of $456 million. Canadian whisky accounts for 73.9 per cent of these sales, followed by Scotch (22.4 per cent), American (2.8 per cent) and Irish whiskies (0.9 per cent).

While sales of Canadian whisky declined slightly – due in part to the difficulty the domestic industry has had in penetrating the deluxe market – sales of Scotch whisky rose by 1.6 per cent; Irish whiskey by 7.0 per cent; and American whiskey by 7.8 per cent.

Mogk-Edwards hopes to grow the Canadian whisky market next year by working with suppliers to broaden its appeal to women and beer drinkers, and by encouraging suppliers to do more promotions with licensees, which in turn create consumer interest in shopping LCBO for these products.

Vodka, the second-best-selling spirit at LCBO with sales of $229 million, grew by 4.0 per cent in fiscal 2001-02. It remains particularly promising because of its ease of mixability; its popularity among women; and the propensity of vodka drinkers to trade up to premium and deluxe products. Flavoured vodkas also continued to do well, with sales growth of 46.8 per cent.

Sales of rum, the third-largest spirit set, grew a modest 1.2 per cent to $174 million. One obstacle to growth in rums is the fact that white rums account for nearly 60 per cent of sales, and more than 98 per cent of all white rums are standard – non-premium or deluxe – brands.

The only spirits subcategory that saw real decline was tequila, whose sales continue to suffer due to a shortage of the Mexican blue agave plant from which tequila is made, which in turn has led to steep supplier price increases. Supplies – and prices – may not return to normal levels for several years, because of the long time it takes for an agave plant to reach maturity.

Liqueurs make up a fragmented portfolio containing many subsets, each with varying sales patterns and growth potential. The largest segments are cream liquors, dominated by Baileys Irish Cream, followed by fruit, coffee and nut liqueurs. Liqueurs account for 13.8 per cent of all spirit sales. Growth in fiscal 2001-02 was steady at 4.0 per cent.

Gift products sold throughout the year showed strong growth, increasing by 15.6 per cent to $22.8 million. Sales of Christmas gift-packs grew 26 per cent. The top-five gifts for Christmas included four Crown Royal products – two packaged with glassware, the others with a flask or gift bag.

## Looking ahead

The Spirits Category team plans to grow its business in fiscal 2002-03 in a number of areas.

Its goals include:

- to leverage market research to learn more about spirit customers and better understand how to improve service to them
- to improve category signage in stores
- to focus on products that appeal to customers in key demographic segments and show strong potential for growth, primarily in premium ($21-$24.95) and deluxe (over $25) price bands. These include Canadian whiskies, flavoured and regular vodkas, amber rums, Irish whiskey and brandy. Other potential areas of growth include single malt Scotch, American whiskey, premium gin, all price bands of Cognac and cream liquors
- to provide good size selection of keys brands of Canadian, Irish and American whiskies, blended Scotch, white rum and Cognac
- to use external marketing, such as free-standing inserts in newspapers, to showcase new products and LCBO promotions
- to increase average transaction value and frequency of shopping
- to increase sales to duty-free stores
- to ensure all stores are well stocked with a core assortment of popular, fast-moving products.

# VINTAGES

## MISSION: TO BE THE BEST PURCHASER, MARKETER AND RETAILER OF FINE WINE AND PREMIUM SPIRITS IN THE WORLD

VINTAGES, the premium products division of the LCBO, continued its trend of double-digit growth in fiscal 2001-02, increasing value sales to $146.3 million, 14.3 per cent over the year before.

Key to this performance was a 19.6-per-cent increase in sales of red wine, which accounts for 61.3 per cent of VINTAGES' business. Sales of white wine – which account for 23.8 per cent of VINTAGES' portfolio – also increased, posting a 7.7 per cent gain. Rosés increased by 15.3 per cent, though from a much smaller volume base, roughly 0.6 per cent of the division's business.

Sales of spirits, which account for 6.1 per cent of VINTAGES' products, increased by 6.8 per cent.

Sales of sparkling wine continued to fall from the heights they hit during millennium celebrations in December 1999, declining by 1.4 per cent. VINTAGES had actually budgeted for a drop closer to 7.0 per cent, but a successful promotion of French Champagne in May led to a 3.4-per-cent annual increase for that important category.

Products from five countries – France, Italy, the U.S., Australia and Canada – account for 80.8 per cent of VINTAGES' sales.

France, the leader among these five, grew its market share in fiscal 2001-02 by a slight 0.2 per cent, stopping the decline of previous years. France's growth was spurred by strong sales of wines from the classic regions of Bordeaux (up 27.8 per cent), Burgundy (up 25.9 per cent) and Rhône (up 21.8 per cent).

Significant gains were made by Australia, which increased its sales by 31.2 per cent to a 10.7-per-cent market share, and Italy (sales up 17.6 per cent to a 16.7-per-cent market share). Sales of products from the U.S. rose by 3.5 per cent, but market share declined to 16.0 per cent. Sales of products from Canada grew by 17.3 per cent. The vast majority

(91.2 per cent) of Canadian products sold through VINTAGES are from Ontario, 58.0 per cent of which are Icewines. This segment increased sales by 8.0 per cent. Ontario table wines sold through VINTAGES performed well, boosted by their participation in the popular Wines of the Month program.

Portugal, Chile, Spain, New Zealand and Great Britain account for another 13.4 per cent of sales, with market shares ranging from 3.4 to 2.3 per cent. Argentina, Germany and South Africa all hover around the 1.0 per cent mark. Another 40 countries make up the final 3.0 per cent.

VINTAGES released almost 2,900 fine wines and spirits during the fiscal year. Scores of new products are released every month in more than 150 LCBO stores. Hundreds more are made available through alternate channels, such as the *Classics Catalogue*, published three times a year.

Retail programs increased their sales by 13.3 per cent. Sales through the *Classics Catalogue*, Futures and other "direct marketing" programs increased by 27.1 per cent.

In fiscal 2001-02, catalogue sales were $20.5 million, up 8.0 per cent over fiscal 2000-01. The Bordeaux and Burgundy Futures programs allow consumers to buy wines before they are bottled, usually at a lower price than they would eventually pay in retail stores. This fiscal year, sales of Bordeaux Futures brought in $6.2 million.

A number of year-round programs continued to make shopping VINTAGES more convenient and accessible. The Wines of the Month program highlighted approachable products that offer excellent value. VINTAGES Essentials made popular core products available on a continuing basis. The Cellar Direct program helped collectors choose products suitable for aging. An e-mail information bulletin, called V-Mail, kept customers informed about upcoming VINTAGES programs.

VINTAGES staged a number of successful public events this year in Toronto, Kingston, Kitchener and Ottawa, including winemakers' dinners and tastings where enthusiasts could sample products from upcoming *Classics Catalogue* releases – and order them on the spot if they so desired. On-site sales from such events in fiscal 2001-02 totalled $1 million.

To reduce excess inventory in stores and warehouses, VINTAGES held its biggest-ever in-store sale in February 2002, with some 440 products marked down by an average of 25.0 per cent. A warehouse sale, held in March 2002 at VINTAGES' Peel facility, offered similar savings, and was met with similar enthusiasm.

## Looking ahead

VINTAGES will continue to expand event programming, offering licensees and retail customers the opportunity to taste products before buying them – an important consideration for consumers who favour premium products.

Its first-ever commercial auction of fine wines will be held November 9 in Toronto, and is already generating excitement among enthusiasts.

Now published three times a year, the *Classics Catalogue* will expand in the fall to four editions – and possibly as many as six at a later date – while scaling back production costs.

VINTAGES plans to expand its offerings of futures and pre-arrivals from Bordeaux, Burgundy and, this year, California, to meet demand on the part of customers who want to save money when purchasing highly sought-after wines.

Other important changes are in the works to reduce the handling and cost of excess inventory, and improve customer service and efficiency.

Upgrades to Toronto Warehouse will also allow VINTAGES to return to that facility from a temporary, leased location in Mississauga. The move will allow VINTAGES to store more products in climate-controlled conditions and get products into the marketplace more quickly. (For more details, please see page 34.)

Dividing its monthly releases into two waves (launched in May 2002) is expected to help improve product flow and presentation on shelves, and bring customers into stores more frequently, leading to incremental sales.

Says VP VINTAGES Tom Wilson: "These measures should help us reduce the amount of inventory we carry, continue our robust sales growth and improve customer service."

The first thing a customer sees in virtually every LCBO store is a section of Ontario wine.

We've put that section front and centre in stores across the province to help build awareness of the many fine domestic wines we offer. Larger stores also feature prominent displays of premium domestic wines bearing Vintners Quality Alliance (VQA) labels.

Ontario's wine industry has grown tremendously in the past 15 years, both in size and the quality of its products.

Ontario now boasts more than 100 wineries – a number that seems to grow by the week – many of which produce award-winning varietal wines, sparkling wines and world-famous Icewines.

In the past 10 years alone, Ontario wines have won 151 gold medals worldwide, including top awards at such prestigious international wine competitions as Vinexpo (Bordeaux), Vinitaly and England's International Wine and Spirit Competition. Though the industry is a relatively small player in the international wine marketplace, our unique climate and viticulture, and the dedication and craft of our winemakers, prove Ontario can compete with the best in the world.

LCBO has worked closely with the industry to foster continued improvements in quality and help establish an Ontario wine appellation system – Vintners Quality Alliance Ontario.


*A new Craft Winery Selection program is designed to help smaller VQA wineries establish their brands.*

Every fall since 1995, LCBO has presented a month-long Ontario wine promotion in all stores to help build awareness and momentum before the holiday sales period. LCBO has made significant investments in an innovative staff-training program, Wonderful Ontario Wines (WOW). Developed in partnership with Ontario winemakers, it provides LCBO employees with a greater understanding and appreciation of Ontario wines so they in turn can better promote them with customers.

We also recently introduced a VQA Craft Winery Selection in nearly 60 stores to help smaller Ontario wineries establish their brands so they can better compete. And we supported an initiative that allows wineries to deliver VQA wines directly to licensees.

On a broader level, LCBO has partnered with Ontario's wine and grape industries in developing an overall Ontario Wine Strategy. A key goal is to help Ontario wines achieve a greater volume share of the $1-billion wine market in Ontario.

New initiatives in fiscal 2002-03 will include an Ontario "wines of the month" program, which will highlight in each four-week sales period one white and one red wine that offer superior value for the money; an employee who will serve as an Ontario wine advocate in larger stores to help customers shop for Ontario wines; four free-standing newspaper inserts that will promote Ontario wines in LCBO stores; the creation of a new position in Sales and Marketing – a Product Manager for Ontario wines to help ensure our product selection meets evolving customer tastes; and a new flagship store in St. Catharines, slated to open in late 2002, which will highlight the fine products that Ontario's wine regions offer.

Providing support to the domestic industry requires a delicate balance, as Ontario must comply with Canada's international trade obligations that require a level playing field in the pricing and marketing of domestic and imported wines. Working within these boundaries, LCBO helped the Ontario government negotiate greater access for Ontario wines to the European Union.

As an organization that pursues excellence in every endeavour, the LCBO recognizes in Ontario's wine industry a kindred spirit, and will continue to work with the industry to build customer awareness and appreciation of its products.

# A BANNER YEAR FOR QUALITY ASSURANCE

On September 26, 2001, a banner was raised to the roof of the LCBO Head Office in Toronto, proclaiming the Quality Assurance (QA) department's accreditation under ISO-9001-2000 and under ISO/IEC-17025, a designation specific to chemistry laboratories.

The accreditation shows that QA's policies and procedures meet the high standards set by the Geneva-based International Organization for Standardization.

"This is the highlight of the year, as far as we are concerned," said Dr. George Soleas, VP Quality Assurance. "These designations endorse the soundness of our testing methodology and results."

QA's primary goal is to ensure all products sold by the LCBO are of the highest quality and meet standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations.

In fiscal 2001-02, some 316,000 tests were conducted on 13,297 products prior to their sale. QA also arranged nearly 5,000 tastings of products to ensure they met high standards set by the LCBO, and, where applicable, the Vintners Quality Alliance Ontario.

QA performed many other functions for the LCBO and its stakeholders in fiscal 2001-02.

The department helped Fruit Wines of Ontario develop policies, standards and regulations for wines made from fruit other than grapes, helping to get more of these domestic products on store shelves.

In collaboration with suppliers, agents, and the Canadian Food Inspection Agency, QA continued building a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

The QA lab tested samples seized by enforcement agencies and assisted in confirming whether products were illegally manufactured or smuggled into Ontario. Employees also served as expert witnesses in provincial court or at licensing hearings held by the Alcohol and Gaming Commission of Ontario.

The laboratory also tested products for other Canadian liquor jurisdictions and for suppliers. Fees for these services help offset the cost of new equipment.

Soleas and colleagues at the University of Toronto and Mount Sinai Hospital continued to lead research into compounds in wine that affect human health. This past fiscal year, Soleas reported new evidence that antioxidants found in red wine can prevent cell mutation that frequently leads to cancer. "We also found that resveratrol, a compound found in red wine grapes – especially those grown in cool climates such as Ontario's – can prevent the development of tumours," said Soleas, who earned a PhD in 2001 from the University of Toronto for his research.

The department continued to operate with greater efficiency and at lower cost than ever before, driving down expenses, costs-per-sample and turnaround time for processing samples.

"Like the rest of the LCBO, we aim to provide superior service at lower cost," Soleas said.


*Employees of LCBO's Quality Assurance department celebrate its double ISO accreditation.*

A man is refused service at an LCBO store because he appears intoxicated. Watching him leave the store, the employee who refused service sees him head for a car in the parking lot. The employee alerts his colleagues and follows the man out. While he tries to convince the man not to drive, another employee calls the police with the licence number of the car. Hopefully, the man will listen to reason and hand over his keys. If he doesn't, there's a good chance the police will stop him before he hurts himself or others.

In fiscal 2001-02, such incidents were documented at LCBO stores in Toronto, Kingston, Peterborough, Hamilton and elsewhere. It's just one example of the commitment LCBO Retail employees have to their communities. As one manager observed: "Bad enough the guy drove to our store in that condition. At least he didn't drive away."

*Mississauga employees Al Fedor and Hermano Pereira refused service to would-be customers who appeared intoxicated, then called police when these individuals drove away from their store.*

As a caring retailer, LCBO works on its own, and in partnership with other organizations, to make a difference in every community it serves.

We refuse to serve minors or customers who appear intoxicated; create and distribute materials on responsible hosting and personal consumption; advertise against impaired driving; raise funds for MADD Canada and other organizations that promote responsible drinking; and conduct our business in an environmentally responsible fashion.

Here are some initiatives undertaken in fiscal 2001-02 in these areas:

**Challenge and Refusal:** All LCBO Retail employees are trained to challenge and refuse service to anyone who appears underage and cannot provide valid ID, appears intoxicated, or is believed to be buying alcohol for minors or intoxicated people. In fiscal 2001-02, LCBO employees challenged 1,225,169 customers, 6.7 per cent more than the year before. Nearly 77,000 were refused. Most challenges (97 per cent) were age-related. To make it easier to identify customers of legal drinking age, LCBO issued 4,101 tamper-resistant BYID photo ID cards in fiscal 2001-02. Some 20,000 BYID cards have been issued since 1996.

**Promoting responsible consumption:** LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message wherever possible. We offer low-alcohol products and set minimum prices to encourage responsible consumption. We publish and distribute recipes for nonalcoholic drinks, brochures that show hosts how to entertain responsibly, and other social responsibility materials.

In fiscal 2001-02, we focused on helping high school students make healthy choices regarding alcohol. We developed and sent to every Ontario high school an information kit for students, including materials from such organizations as the Centre for Addiction and Mental Health and the Road Safety Office of the Ministry of Transportation. LCBO store managers made presentations at school assemblies, and invited school officials to visit stores on prom nights to deter underage students from trying to purchase alcohol. We created a kit to help students and their parents plan safe and responsible prom celebrations, and worked with the Ontario Physical and Health Education Association (OPHEA) and other partners to revise resource materials on alcohol,

cannabis and tobacco for grades 7 and 8. The materials now specifically address expectations set out in the Ministry of Education's 1998 Ontario curriculum.

**Advertising:** In June 2001, the LCBO launched a year-long $2-million social responsibility campaign aimed at males aged 25-34 who are moderate drinkers and believe they can drive safely after consuming a few drinks. Its overriding theme was "Drinking and Driving is No Accident. It's a Choice." Campaign elements included a powerful television commercial, in which a mother's joy at watching her baby take her first steps turns to sadness as she recalls the recent death of her husband in a drunk driving crash. Radio commercials reminded people that drinking and driving can be devastating for the drinking driver, his or her family, and innocent victims. LCBO also collaborated with the Ottawa Senators hockey club on a campaign against impaired driving, and reprinted a series of humorous posters created for licensees in fiscal 2000-01, which challenged young males to make the right choice about drinking and driving.


*This in-store poster highlighted LCBO's strong support of municipal Blue Box programs. LCBO sent cheques totalling $4 million to 173 Ontario communities in fiscal 2001-02 to help cover costs associated with recycling beverage alcohol containers.*

**Fundraising:** LCBO raises hundreds of thousands of dollars a year for charity. In the fall of 2001, LCBO raised a record $146,000 for the United Way through employee donations and special events. Our donation box program raised more than $400,000 for national and provincial organizations, including MADD Canada ($46,000), the Ontario Community Council on Impaired Driving ($15,000) and the Traffic Injury Research Foundation ($7,400). We also raised $87,000 for We Care, to help send children with disabilities to summer camp, and more than $39,000 for Camp Oochigeas, which provides getaways to kids with cancer. Other monies come from in-store tastings, local donation box drives in January and July, gift-wrap programs, the sale of compilation CDs and many more events on behalf of local charities.

**Environment:** In November 2001, LCBO sent cheques totalling $4 million to 173 Ontario communities, to help cover costs associated with recycling beverage alcohol containers through the Blue Box system. Since 1998, the LCBO has contributed $16 million in direct funding to municipalities to help cover such costs, and will contribute $25 million more over the next five years. LCBO stores also recycle corrugated cardboard; Head Office recycles fine paper, polystyrene, bottles, cans, newspapers, data tapes and other materials. We encourage suppliers to minimize their packaging and contribute to nonprofit environmental organizations such as the Composting Council, Recycling Council of Ontario and Pollution Probe.

# MARKETING COMMUNICATIONS:
## ENGAGING THE LCBO CUSTOMER

The winter holiday season is the busiest time of year in LCBO stores, as customers come in search of products they can give as gifts or use to entertain family and friends.

In fiscal 2001-02, LCBO created Holiday Magic, a two-month promotion designed to provide customers with easy entertaining and gifting solutions. It was the best example yet of integrated marketing at LCBO, says Nancy Cardinal, VP Marketing Communications. "Every point of contact with our customers – in all our stores, on our Internet site, in *FOOD & DRINK* magazine – featured consistent imagery and messaging."

Store sales results were strong during the two-month period when Holiday Magic ran, rising nearly 8 per cent over the year before, despite weaker sales to licensees in the post-September 11th environment. Sales of pre-packaged Christmas gift items rose in every product category: by 32 per cent in Spirits, 11 per cent in Wines and 41 per cent in Beers & Special Markets.

Holiday Magic shows how integrated marketing can help LCBO customers learn more about beverage alcohol and entertain easily, adventurously and responsibly.

The brand vision of LCBO is to be Ontario's Source for Entertaining Ideas, as first articulated in its five-year strategic plan for 1998-2003. Since 1998, this whole branding strategy has contributed to LCBO's long-term profitable growth, as net sales and dividends to the province have exceeded forecasts in every year of the plan to date.

Driving the whole branding strategy is the LCBO's free consumer publication *FOOD & DRINK*, now published six times a year. Throughout the fiscal year, in-store promotions brought to life the themes, recipes, drink mixes and colour palettes from each issue of *FOOD & DRINK*.

Other promotions showcased special events, such as Super Bowl Sunday and various ethnic holidays. "Our research shows that customers are more interested in and knowledgeable about beverage alcohol products than they used to be, but still apprehensive about making poor choices," Cardinal says. "Our displays, promotions and staff training are designed to take the risk out of every purchase."

In fiscal 2002-03, LCBO and its suppliers will continue developing informative displays and promotions that help customers find the right product for personal consumption or gift-giving.

Ongoing staff training will help all Retail employees develop their ability to answer product-related questions, match products to foods and help customers plan gatherings from informal barbecues to weddings.

Our customers expect – and should receive – the same knowledgeable, friendly, caring and inspired service no matter where they shop. Our brand vision helps ensure a positive and consistent experience wherever customers shop the LCBO, from Timmins to Toronto.

*The Holiday Magic promotion provided customers with easy entertaining and gifting solutions.*

# STORE UPGRADES INCREASE SATISFACTION, PROFITS

For the past 60 years, the LCBO's Store 10 has operated out of the old North Toronto train station, which was rendered obsolete when Union Station opened downtown in 1927.

Much of the historic station's architectural grandeur will be restored when the LCBO completes renovations to Store 10, on Yonge Street at Summerhill, in the heart of affluent Rosedale.

When completed, it will be the largest store in the LCBO network, offering its knowledgeable and demanding customer base more than 5,500 products in 21,000 sq. ft. of selling space, including Ontario's most extensive VINTAGES section. Its sales are expected to be the highest in Ontario.

Like other major retailers, the LCBO must constantly improve its store network to ensure it meets evolving customer expectations for service, selection and accessibility.

In fiscal 2001-02, we upgraded or relocated 18 stores in communities of all sizes: Belleville, Bramalea, Brantford, Cornwall, Denbigh, Echo Bay, Maple, North Bay, Peterborough, Sarnia, Teeswater, Toronto, Waterloo, Welland and Windsor. Seasonal or temporary stores were also opened in Clearwater Bay, Rossmore and in Toronto's Royal Ontario Museum, to coincide with an exhibit on wine called *Gift of the Gods: The Art of Wine and Revelry.*

Market research helped determine the best locations, factoring in parking, visibility, barrier-free access, loading facilities, demographics and proximity of other retailers, including other LCBO stores.

In all, we spent $30.5 million on upgrades, repairs and other improvements in fiscal 2001-02, 54 per cent of the capital expenditures for the fiscal year. The LCBO incurs no debt when carrying out capital improvements; all projects are funded from the seamless five-year capital plan (1998-2003).

Improved customer satisfaction ratings and sales indicate these upgrades are well worth the effort. So do our sales per square foot, which have increased from $1,262 in 1993-94, when we began reporting them, to $1,752 in fiscal 2001-02.

Next fiscal year, we plan to open 17 new stores, including the flagship Store 10; full service stores in Brampton, Collingwood, London, Markham, Newmarket, Richmond Hill and St. Catharines; and mid-sized stores in Alliston, Mississauga, Ottawa, St. Thomas, Tecumseh and Toronto.

We also plan to upgrade dozens of stores to our current standards for colour, lighting and signage; continue maintenance projects in some 85 stores; and roll out at least 70 new agency stores in communities not large enough to support a regular LCBO store.

By paying close attention to what our customers want, we can continue to increase profitability by improving our retail network to meet and exceed expectations in every market we serve.


*Upgraded LCBO stores offer enhanced product selection and customer services in appealing shopping environments. The new Store 416 in Bramalea, upgraded in fiscal 2001-02, includes this Knowledge Centre, featuring books, videos and CD-ROMs designed to help customers learn more about the products we sell.*

# LOGISTICS MOVES FORWARD
## TO BETTER SERVE STORES

Like Quality Assurance (page 29), the LCBO's Logistics Division celebrated ISO accreditation in fiscal 2001-02, when its London and Thunder Bay warehouses were certified under ISO 9002.

The accreditation reflected improved procedures and workflow at the London facility, according to Ian Martin, Senior VP Logistics.

The LCBO had considered closing all four of its conventional warehouses (the others are in Thunder Bay, Ottawa and Toronto) beginning in 2003, and shipping all product out of its largest warehouse, the fully automated Durham Logistics Facility in Whitby. That plan has now been reconsidered for three reasons:

- a review of the costs of expanding Durham showed they would be higher than consultants estimated
- improved product flow throughout the LCBO is reducing excess inventory, which had been putting a strain on warehouse capacity
- Logistics employees significantly improved productivity at all facilities in fiscal 2001-02.

Instead, the LCBO will upgrade Durham and automate at least two conventional warehouses to better serve its retail store network.

Durham will get upgrades to several systems, including software applications that help sort product into store orders and track cases.

The warehouses in London and Toronto will be upgraded and automated to further increase efficiency, allowing workers to pick orders for more than one store at a time, as is done at Durham.

Renovations and equipment upgrades should be complete by the fall of 2002.

LCBO will also move out of a Peel warehouse it rented last year to handle excess inventory. Now that excess inventory is being reduced in stores and warehouses, the Peel facility has been sublet. VINTAGES' inventory, which was being stored at the Peel warehouse, will move back to Toronto Warehouse once the upgrade is complete.

Decisions on whether to upgrade the Ottawa and Thunder Bay facilities will be made in fiscal 2003-04.

More efficient operation of its warehouse system and reduced inventory investment are helping the LCBO implement other aspects of its supply chain improvement project.

More frequent deliveries to stores, for example, allow stores to reduce costly excess inventory while maintaining adequate stocks of products. (All higher-volume stores – about half of all stores in the network – began receiving deliveries at least twice a week beginning April 1, 2002. Some higher-volume stores that had already been receiving twice-weekly deliveries have had a third delivery added to keep product flowing.)

"Our goals are to reduce unnecessary product handling and free up Retail staff to spend more time helping customers," says Martin. "In the Logistics Division, both management and employees have shown flexibility in how we go about achieving these important goals."

*The LCBO is upgrading its Toronto and London warehouses, as well as its main Durham Logistics Facility in Whitby, to better serve its retail store network. Left to right at Toronto Warehouse are Maintenance Workers Vic Patafio and Tom McCall, Warehouse Worker Ian McDonald, contractor Elvy Zanette and Keith Grant, Director of Special Projects, Logistics.*

# LEVERAGING TECHNOLOGY
## FOR GREATER EFFICIENCY

It used to take employees at Store 329, Brampton, four hours to produce their weekly order using the LCBO's IMPACT system.

It now takes them just half an hour using new Web-based ordering software.

The software generates suggested order quantities, using the store's sales history to forecast future needs.

Employees can modify the orders or accept them as they are; in most cases, only minimal adjustments are needed.

Once they master the system, employees can reduce back-room inventory significantly, while keeping shelves well-stocked.

The system – developed jointly by the LCBO's Information Technology division and Stirling Douglas Group (SDG) – is just one of many ways in which the LCBO is leveraging technology to run, grow and transform its business.

Another major initiative is a new customer-driven point-of-sale (POS) system that will improve the speed of transactions; ensure greater accuracy of data; help calculate the return on investment of certain corporate initiatives; track promotional items; and apply price updates accurately and quickly. The system is part of a larger Integrated Store Environment (ISE) project that will also improve the control and integrity of data Head Office receives from stores. There will also be significant improvements to store receiving and inventory management.

Other key technology initiatives for fiscal 2001-02 and beyond include:

- new warehouse management systems in the Toronto and London conventional warehouses (see page 34), and in the new GTA Service Centre that opened in the summer of 2002 to better serve licensees in the Greater Toronto Area
- improvements to the LCBO's Intranet, to help keep employees informed about key corporate initiatives; contribute to organizational learning by offering Web-based training; and reduce paper and mailing costs by providing on-line access to numerous forms, reports and other services
- a remote security system at Head Office that uses state-of-the-art hardware, software and video capability to monitor alarm systems in all Retail stores
- significant expansion of the data available through the LCBO data warehouse known as the Information Library
- ongoing improvements to the IT architecture and infrastructure.

"It's important to understand that technology is a business tool and not an end in itself," notes Hugh Kelly, Senior Vice President IT. "Everything we do is designed to improve our ability to serve customers in our stores, while carefully balancing value, risks and costs.

"Excellence in managing information technology and corporate data has never been more important to an organization's success," he adds. "This is evident not only in store settings, but behind the scenes where effective change management, project management and customer-relationship management are all keys to future success."

*Customer Service Representatives Tedd Traynor and Tricia Zamek use new Web-based ordering software to better manage inventory in their store. It's just one of many ways in which the LCBO is leveraging technology to run its business more efficiently and effectively.*

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, LCBO submits the following information for calendar 2001.

There are 52 LCBO names on this year's *Public Sector Disclosure Act* list, compared to 34 the year before. Eighteen directors appear on the list for the first time, owing to their years of service; the fact that they may have reached the top of their pay ranges and because they may have opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. (Most management staff are eligible to receive five MCO days a year.) Also contributing to increased levels of compensation was an Order-in-Council approval that adjusted management salary rates retroactive to April 1, 2000, to help LCBO compete, attract and retain the high level of executive talent it needs to meet its strategic and business objectives. This retroactive lump-sum payment is considered compensation in the year in which it is received (2001) and is included in this disclosure.

| Name | Position | Employment Income | Taxable Benefits |
|---|---|---|---|
| Ashdown, Tony | Director, Human Resources Development | $105,755.35 | $277.12 |
| Bonic, Jacqueline | VP, Store Development & Real Estate | $136,146.41 | $344.07 |
| Bourre, Don | Director, Eastern Region | $103,127.00 | $1,505.36 |
| Brandt, Andrew | Chair & CEO | $140,923.17 | $161.40 |
| Browning, J. Alex | Sr. VP, Finance & Administration | $169,919.48 | $394.58 |
| Buck, Peter | Director, Human Resources Services | $129,836.22 | $325.94 |
| Burns, Tamara | Category Director, Wines | $133,797.07 | $343.16 |
| Cardinal, Nancy | VP, Marketing Communications | $135,954.41 | $343.16 |
| Chu, Hang-Sun | Sr. Systems Analyst | $101,058.13 | $216.84 |
| Collins, Robert | Director, Customer Insights | $111,857.47 | $285.37 |
| Downey, Robert | Category Director, Spirits | $143,580.31 | $368.12 |
| Dutton, Rob | Dir., Fin. Planning & Development | $134,286.59 | $326.70 |
| Ecker, Roy | Director, Central Region | $135,878.72 | $346.93 |
| Farrell, Michael | Director, Wholesale | $122,726.83 | $321.35 |
| Fisher, R. G. | Director, Western Region | $135,723.05 | $349.61 |
| Fitzpatrick, Mary | Sr. VP, Gen. Counsel & Corp. Secretary | $169,919.48 | $394.58 |
| Flynn, Larry | Sr. VP, Merchandising | $140,628.67 | $298.76 |
| Gee, Larry | Executive VP & Chief Operating Officer | $247,715.93 | $548.22 |
| Grant, Keith | Director, Traffic, Customs & Excise | $104,128.81 | $292.84 |
| Green, Michael | Solicitor | $123,189.22 | $326.70 |
| Hicks, William | Director, Traffic, Customs & Excise | $109,796.87 | $290.25 |
| Hobley, A. N. | Director, Customer Service & Admin. | $112,624.13 | $305.75 |
| Holloway, Brian | Director, Application Systems | $120,472.29 | $319.51 |
| Kane, Murray | Sr. VP, Human Resources | $169,919.48 | $394.58 |
| Kelly, Hugh | Sr. VP, Information Technology | $169,919.48 | $394.58 |
| Kennedy, William | Exec. Director, Corp. Communications | $135,954.41 | $344.07 |
| Ker, J. G. | Director, Corporate Policy | $129,836.22 | $326.70 |
| Lamantia, M. | Sr. Systems Analyst | $100,245.62 | $215.25 |
| Landy, Randi | Category Director, Beers & Sp. Markets | $104,447.54 | $277.12 |
| Lyons, Carol | Controller | $124,587.24 | $326.70 |
| MacGregor, Maralisa | Director, Supply Chain | $111,449.07 | $283.18 |
| Marshall, Dave | Director, Northern Region | $127,273.22 | $1,125.70 |
| Martin, John | Sr. VP, Logistics | $167,455.46 | $394.58 |
| McGrath, Bruce | Sr. Systems Analyst | $103,161.37 | $216.84 |
| McNee, J. (Andrew) | Solicitor | $103,686.53 | $208.28 |
| Mogk-Edwards, Shari | Category Director, Spirits | $104,326.99 | $277.12 |
| Murphy, Peter | Director, Conventional Warehousing | $132,880.90 | $323.39 |
| O'Brien, Barry | Director, Corporate Affairs | $113,451.87 | $286.03 |
| Pizzolato, Bruce | Director, Durham Facility | $113,039.79 | $284.05 |
| Ramsay, Gary | Director, Application Systems | $128,752.10 | $325.94 |
| Renton, Alison | Solicitor | $118,487.90 | $318.77 |
| Sherwood, Garfield | Sr. VP, Retail | $169,919.48 | $394.58 |
| Soleas, George | Director, Quality Assurance | $127,984.66 | $308.35 |
| Sutton, Shelley | Director, Strategic Planning | $111,857.48 | $286.03 |
| Tughan, William | Director, Loss Prevention & Security | $113,655.48 | $286.03 |
| Turner, Jim | Director, Western Region | $103,127.00 | $501.36 |
| Walker, R. Lila | Director, Compensation & HR Admin. | $106,190.18 | $277.12 |
| Whitelaw, Richard | Treasurer | $118,179.73 | $300.34 |
| Wilson, T. J. | VP, VINTAGES | $135,955.43 | $343.16 |
| Yazejian, Levon | Director, General Audit | $111,857.48 | $286.03 |
| Zachar, Wayne | Director, Employee Relations | $127,273.22 | $325.94 |
| Zaleskis, A. (Andy) | Director, Info. Tech. Infrastructure | $123,153.36 | $325.94 |

# RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 12, 2002.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 48, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. C. Browning

J. Alex Browning
*Senior VP Finance & Administration, and Chief Financial Officer*

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

### Operations

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 596 | 600 | 602 | 600 | 599 |
| Number of Permanent Employees | 2,934 | 3,014 | 3,074 | 3,174 | 3,225 |
| Number of Regular Products Listed | 3,098 | 3,366 | 3,496 | 3,478 | 3,487 |

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

### Financial (values in $000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,160,843 | 2,349,832 | 2,549,458 | 2,734,937 | 2,939,563 |
| % change/previous year | 7.30% | 8.75% | 8.50% | 7.28% | 7.48% |
| Operating Expenses | 351,653 | 374,558 | 414,861 | 468,090 | 489,633 |
| As a % of Net Sales & Other Income | 16.27% | 15.94% | 16.27% | 17.12% | 16.66% |
| Net Income | 744,904 | 809,425 | 845,694 | 876,272 | 920,912 |
| As a % of Net Sales & Other Income | 34.47% | 34.45% | 33.17% | 32.04% | 31.33% |

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 42.

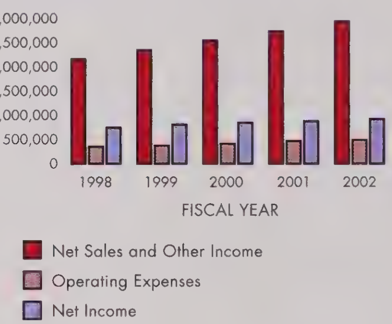
### Breakdown of Operating Expenses (values in $000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Salaries and Benefits | 218,631 | 231,486 | 244,399 | 266,929 | 272,594 |
| Depreciation | 24,666 | 25,580 | 29,582 | 40,546 | 44,260 |
| Other Expenses | 108,356 | 117,492 | 140,880 | 160,615 | 172,779 |
| Total Operating Expenses | 351,653 | 374,558 | 414,861 | 468,090 | 489,633 |

### Key Indicators: 1998-2002

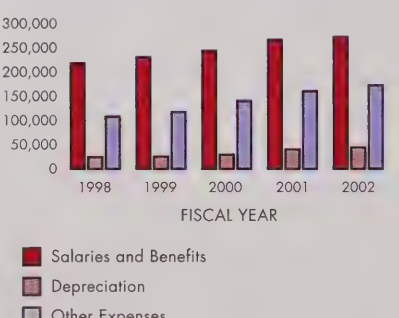

### Financial Indicators: 1998-2002

(values in $000s)




### Operating Expenses: 1998-2002

(values in $000s)



The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

## Treasurer of Ontario (values in $000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: on account of profits | 745,000 | 780,000 | 800,000 | 850,000 | 905,000 |
| Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor | 202,148 | 220,645 | 239,071 | 255,347 | 275,072 |
| Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits | 505.656 | 519,472 | 537,569 | 524,110 | 530,799 |
| Remitted by others:** Ontario Retail Sales Tax on sales through Beer Stores and Ontario winery retail stores | 160,321 | 168,281 | 177,406 | 177,302 | 186,308 |
| Ontario Retail Sales Tax on sales through agency stores | 2,839 | 3,305 | 3,672 | 3,847 | 4,027 |
| **Total** | **1,615,964** | **1,691,703** | **1,757,718** | **1,810,606** | **1,901,206** |

* The Alcohol and Gaming Commission of Ontario (AGCO), The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

## Receiver General for Canada (values in $000s

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: Excise taxes and Customs duties | 247,413 | 249,639 | 267,137 | 278,430 | 284,520 |
| Goods and Services Tax | 68,642 | 66,192 | 69,718 | 79,056 | 84,885 |
| Remitted by others: Excise taxes, GST and other duties/taxes | 329,802 | 333,407 | 367,637 | 361,917 | 355,868 |
| GST remitted on sales through agency stores | 1,656 | 1,928 | 2,142 | 2,244 | 2,349 |
| **Total** | **647,513** | **651,166** | **706,634** | **721,647** | **727,622** |

## Ontario Municipalities (values in $000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: grants in lieu of realty and business taxes | 5,897 | 3,680 | 3,569 | 3,671 | 3,423 |
| **Total Revenue Payments** | **2,269,374** | **2,346,549** | **2,467,921** | **2,535,924** | **2,632,251** |

Note: These amounts do not include corporation, realty and business taxes paid by distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2002 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

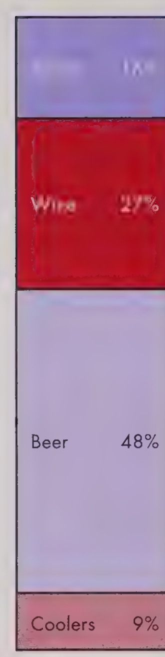
## LCBO Volume Sales (in 000s Litres)

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Domestic Spirits | 31,015 | 31,834 | 33,310 | 34,286 | 33,897 |
| Domestic Spirit Coolers | 12,150 | 16,168 | 17,361 | 16,789 | 25,791 |
| Imported Spirits | 14,059 | 15,175 | 17,491 | 18,851 | 20,866 |
| **Total Spirits** | **57,224** | **63,177** | **68,162** | **69,926** | **80,554** |
| Domestic Wine | 25,845 | 25,795 | 26,523 | 26,958 | 26,934 |
| Domestic Wine Coolers | 718 | 544 | 489 | 499 | 549 |
| Imported Wine | 49,617 | 52,952 | 57,010 | 60,626 | 63,339 |
| **Total Wine** | **76,180** | **79,291** | **84,022** | **88,083** | **90,822** |
| Domestic Beer | 55,763 | 61,377 | 65,618 | 67,677 | 75,045 |
| Domestic Beer Coolers | 24 | 38 | 339 | 627 | 363 |
| Imported Beer | 47,082 | 55,827 | 64,451 | 73,756 | 83,337 |
| **Total Beer** | **102,869** | **117,242** | **130,408** | **142,060** | **158,745** |
| **Total Domestic** | **125,515** | **135,756** | **143,640** | **146,836** | **162,579** |
| **Total Imported** | **110,758** | **123,954** | **138,952** | **153,233** | **167,542** |
| **Total** | **236,273** | **259,710** | **282,592** | **300,069** | **330,121** |

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 14,838 | 13,878 | 14,074 | 14,961 | 16,164 |
| Sales by The Beer Store & On-site Stores | 654,284 | 654,413 | 663,806 | 643,721 | 652,488 |

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2002 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

## Share of Volume Sales




## LCBO Volume Sales by Product Type 1998-2002


Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Share of Value Sales

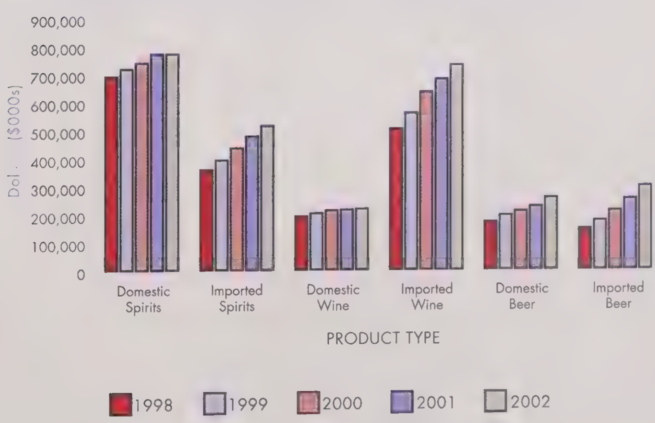

## LCBO Value Sales (in $000s)

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Domestic Spirits | 691,165 | 717,270 | 739,313 | 771,487 | 771,579 |
| Domestic Spirit Coolers | 61,093 | 80,716 | 84,579 | 82,354 | 127,038 |
| Imported Spirits | 358,363 | 391,872 | 435,093 | 476,972 | 514,728 |
| **Total Spirits** | **1,110,621** | **1,189,858** | **1,258,985** | **1,330,813** | **1,413,345** |
| Domestic Wine | 190,809 | 201,723 | 211,595 | 214,443 | 217,234 |
| Domestic Wine Coolers | 2,612 | 1,976 | 1,797 | 1,954 | 2,154 |
| Imported Wine | 503,290 | 559,624 | 635,112 | 680,993 | 731,605 |
| **Total Wine** | **696,711** | **763,323** | **848,504** | **897,390** | **950,993** |
| Domestic Beer | 170,538 | 194,149 | 208,882 | 225,612 | 256,579 |
| Domestic Beer Coolers | 83 | 144 | 1,035 | 2,076 | 1,209 |
| Imported Beer | 145,326 | 174,284 | 210,815 | 252,221 | 298,170 |
| **Total Beer** | **315,947** | **368,577** | **420,732** | **479,909** | **555,958** |
| **Total Domestic** | **1,116,300** | **1,195,978** | **1,247,201** | **1,297,926** | **1,375,793** |
| **Total Imported** | **1,006,979** | **1,125,780** | **1,281,020** | **1,410,186** | **1,544,503** |
| **Non-Liquor** | 3,479 | 3,914 | 5,389 | 6,213 | 7,839 |
| **Total** | 2,126,758 | 2,325,672 | 2,533,610 | 2,714,325 | 2,928,135 |

| Product Type | 1998 | 1999 | 2000 | 2001 | [illegible] |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 114,805 | 111,765 | 118,219 | 123,739 | 136,587 |
| Sales by The Beer Store | 1,858,377 | 1,937,004 | 2,021,111 | 2,062,297 | 2,177,436 |

Note: Value sales listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

## LCBO Value Sales by Product Type: 1998-2002




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Product Listings

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Spirits | 516 | 539 | 518 | 542 | 486 |
| Wine | 518 | 538 | 536 | 499 | 481 |
| Beer | 346 | 385 | 403 | 407 | 426 |
| **Imported** | | | | | |
| Spirits | 542 | 601 | 586 | 641 | 672 |
| Wine | 963 | 1,085 | 1,192 | 1,113 | 1,164 |
| Beer | 213 | 218 | 261 | 276 | 258 |
| **Total Regular Listings** | **3,098** | **3,366** | **3,496** | **3,478** | **3,487** |
| VINTAGES Wines and Spirits | 3,037 | 3,235 | 3,569 | 3,108 | 2,858 |
| Duty-Free Listings | 213 | 210 | 235 | 212 | 224 |
| Consignment Warehouse and Private Stock | 5,240 | 5,241 | 6,106 | 6,225 | 5,444 |
| **Total Product Listings** | **11,588** | **12,052** | **13,406** | **13,023** | **12,013** |

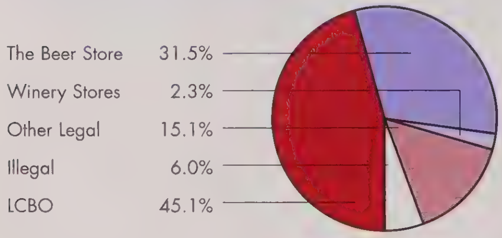
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

## LCBO Sales Channel Summary (in $000s)

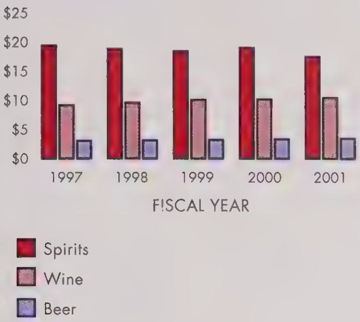
| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| LCBO Total Sales | 2,493,935 | 2,725,858 | 2,967,710 | 3,177,916 | 3,417,729 |
| The Beer Store Total Sales | 2,114,467 | 2,214,918 | 2,324,225 | 2,381,289 | 2,433,948 |
| Winery Retail Stores Total Sales | 136,618 | 133,001 | 140,681 | 147,178 | 162,539 |
| **Other Channels:** | | | | | |
| Legal | 861,708 | 888,670 | 941,465 | 1,000,660 | 1,017,104 |
| Homemade | 60,918 | 63,567 | 59,070 | 49,025 | 48,013 |
| De-alcoholized Beer | 17,708 | 23,872 | 22,314 | 20,870 | 20,191 |
| Illegal | 583,780 | 542,896 | 455,801 | 405,918 | 432,435 |
| **Grand Total** | **6,269,134** | **6,592,782** | **6,911,266** | **7,182,856** | **7,531,959** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

## Value by Sales Channel



## Average Retail Prices per Litre 1998-2002

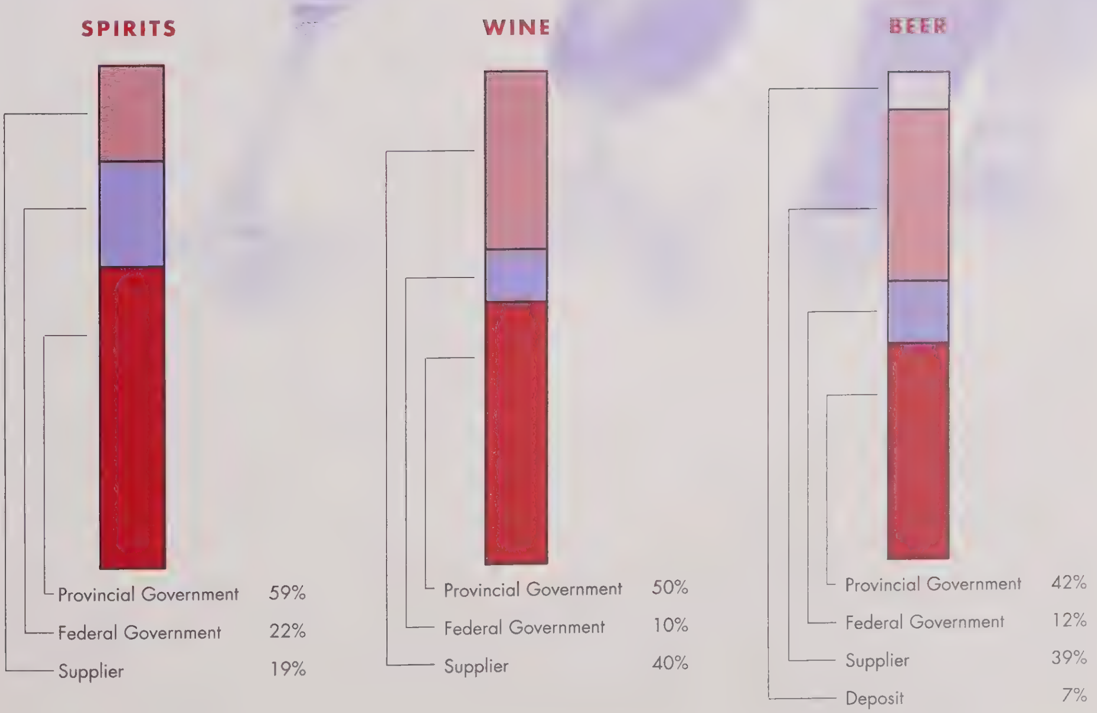



## Average LCBO Retail Prices

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Spirits | $19.41 | $18.83 | $18.47 | $19.03 | $17.55 |
| Wine | $9.15 | $9.63 | $10.10 | $10.19 | $10.47 |
| Beer | $3.07 | $3.14 | $3.23 | $3.38 | $3.50 |
| Average Transaction Value per Customer | $27.40 | $28.07 | $29.55 | $30.51 | $31.13 |

Note: Retail prices exclude GST and PST. For all categories, coolers are included.

## Revenue Distribution



The following table shows LCBO volume sales by category for fiscal 2001-02.

## Product Category Share

| Canadian Spirits | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Canadian Whisky | 33.5% | 30.4% | 29.9% | 30.3% | 25.6% |
| Canadian Rum | 15.6% | 14.5% | 14.5% | 14.7% | 12.6% |
| Canadian Vodka | 15.4% | 14.3% | 14.2% | 14.6% | 12.7% |
| Spirit Coolers | 28.1% | 33.5% | 34.3% | 32.9% | 43.2% |
| Canadian Dry Gin | 2.5% | 2.2% | 2.1% | 2.1% | 1.6% |
| Other | 4.9% | 5.1% | 5.0% | 5.4% | 4.3% |
| **Imported Spirits** | | | | | |
| Scotch | 25.1% | 23.8% | 22.0% | 20.2% | 18.1% |
| Liqueur | 19.1% | 18.7% | 18.2% | 17.8% | 15.6% |
| Miscellaneous Liquors | 13.9% | 13.2% | 13.5% | 13.6% | 13.9% |
| Vodka | 12.4% | 13.9% | 15.5% | 16.0% | 15.7% |
| French Brandy | 9.3% | 9.4% | 9.0% | 8.8% | 8.0% |
| Spirit Coolers | 0.9% | 0.1% | 0.6% | 2.5% | 8.6% |
| Other | 19.3% | 20.9% | 21.2% | 21.1% | 20.1% |
| **Canadian Wines** | | | | | |
| White Table | 49.2% | 48.6% | 48.4% | 48.4% | 49.2% |
| Red Table | 20.5% | 22.3% | 24.1% | 25.7% | 26.6% |
| 7% Sparkling | 6.0% | 6.1% | 6.2% | 5.6% | 5.5% |
| Sherry | 5.5% | 4.5% | 4.4% | 4.5% | 4.6% |
| Wine Coolers | 3.7% | 3.8% | 1.8% | 1.7% | 1.9% |
| Other | 15.1% | 14.7% | 15.1% | 14.1% | 12.2% |
| **Imported Wines** | | | | | |
| White Table | 43.8% | 42.3% | 39.6% | 37.6% | 36.4% |
| Red Table | 42.1% | 43.2% | 44.4% | 46.3% | 47.4% |
| Champagne | 3.8% | 4.1% | 4.6% | 3.5% | 3.5% |
| Sherry | 2.0% | 1.3% | 1.1% | 1.0% | 0.9% |
| Other | 8.3% | 9.1% | 10.3% | 11.6% | 11.8% |
| **Canadian Beer** | | | | | |
| Ontario Beer | 93.5% | 92.4% | 91.3% | 88.4% | 87.3% |
| Other Canadian Beer | 6.5% | 7.6% | 8.7% | 11.6% | 12.7% |
| **Imported Beer** | | | | | |
| U.S. Beer | 42.1% | 41.8% | 36.9% | 31.0% | 25.1% |
| Other Imported Beer | 57.6% | 57.9% | 62.9% | 68.8% | 74.7% |
| Saké | 0.3% | 0.3% | 0.2% | 0.2% | 0.2% |

The following table shows detailed sales of wine by volume and value (LCBO sales only).

### Volume (000s litres)

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Red Wine | 25,570 | 27,875 | 31,012 | 34,100 | 36,421 |
| White Wine | 34,093 | 34,483 | 34,913 | 35,189 | 35,786 |
| Rosé Wine | 2,493 | 2,853 | 3,264 | 2,984 | 2,934 |
| Sparkling Wine | 3,969 | 4,121 | 4,704 | 3,894 | 3,892 |
| Fortified Wine | 4,083 | 3,349 | 3,373 | 3,457 | 3,400 |
| Wine Coolers | 1,004 | 1,019 | 947 | 868 | 812 |
| Other Wine | 3,336 | 3,820 | 3,968 | 5,358 | 5,564 |
| VQA Wines* | 2,534 | 2,718 | 3,158 | 3,659 | 3,933 |

### Value ($000s)

| Product Type | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Red Wine | 258,225 | 296,921 | 347,051 | 390,289 | 430,867 |
| White Wine | 288,217 | 301,198 | 312,901 | 319,344 | 330,730 |
| Rosé Wine | 19,983 | 23,490 | 27,699 | 25,091 | 24,703 |
| Sparkling Wine | 46,598 | 52,373 | 70,310 | 52,914 | 53,161 |
| Fortified Wine | 40,035 | 32,277 | 32,995 | 34,691 | 33,918 |
| Wine Coolers | 4,660 | 4,812 | 4,454 | 3,970 | 3,594 |
| Other Wine | 16,382 | 26,106 | 30,024 | 42,858 | 45,354 |
| VQA Wines* | 31,146 | 34,827 | 41,259 | 47,770 | 50,205 |

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO Spirits sales by country of origin for fiscal 2001-02.

## Spirits 2001-02

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 888,427,919 | 59,652,179 |
| Great Britain | 159,522,593 | 6,968,942 |
| France | 78,362,017 | 2,423,692 |
| U.S.A. | 53,417,065 | 2,719,507 |
| Ireland | 48,533,455 | 1,761,853 |
| Sweden | 35,770,191 | 1,742,694 |
| Mexico | 31,707,945 | 1,017,705 |
| Italy | 31,279,211 | 1,324,449 |
| Finland | 11,696,138 | 536,544 |
| Russian Federation | 7,917,063 | 358,379 |
| Germany | 7,332,785 | 288,700 |
| Poland | 6,668,690 | 289,888 |
| Jamaica | 4,434,275 | 165,044 |
| Barbados | 4,274,514 | 178,304 |
| Greece | 3,648,655 | 165,838 |
| Netherlands | 3,228,600 | 151,507 |
| South Africa | 2,788,124 | 118,997 |
| Switzerland | 2,353,689 | 79,679 |
| Cuba | 1,494,344 | 58,361 |
| Portugal | 1,352,776 | 46,636 |
| Puerto Rico | 1,057,333 | 43,932 |
| Bermuda | 937,388 | 34,392 |
| Croatia | 907,562 | 35,390 |
| Spain | 697,886 | 29,805 |
| Austria | 597,068 | 15,506 |
| Hungary | 580,633 | 25,039 |
| Bahamas | 493,004 | 20,136 |
| Ukraine | 440,098 | 16,870 |
| Lebanon | 436,198 | 17,360 |
| Denmark | 324,639 | 13,005 |
| India | 264,209 | 12,337 |
| Belgium | 235,694 | 8,989 |
| People's Republic of China | 219,439 | 11,309 |
| Czech Republic | 207,366 | 6,196 |
| Guyana | 133,002 | 4,668 |

Spirits continued

| | | |
|---|---|---|
| Chile | 122,546 | 5,036 |
| Trinidad | 108,724 | 4,947 |
| Brazil | 93,346 | 3,690 |
| Israel | 78,875 | 3,336 |
| Peru | 10,725 | 302 |
| Antigua | 10,696 | 384 |
| Cyprus | 7,607 | 351 |
| New Zealand | 5,576 | 525 |
| Philippines | 3,904 | 176 |
| Australia | 3,193 | 36 |
| Norway | 2,403 | 71 |
| Bolivia | 1,529 | 48 |
| Georgia | 789 | 19 |
| **Total** | **1,392,191,481** | **80,362,753** |

The following table shows LCBO Wine sales by country of origin for fiscal 2001-02.

## Wine 2001-02

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 215,184,277 | 27,412,570 |
| France | 198,533,890 | 17,090,675 |
| Italy | 150,817,847 | 14,636,427 |
| Australia | 100,528,741 | 6,901,252 |
| U.S.A. | 100,252,799 | 8,595,722 |
| Chile | 40,942,028 | 3,912,802 |
| Germany | 20,730,426 | 2,019,705 |
| Portugal | 20,367,988 | 1,730,536 |
| Spain | 19,521,491 | 1,584,389 |
| South Africa | 15,174,235 | 1,440,753 |
| New Zealand | 6,157,315 | 386,300 |
| Argentina | 5,883,131 | 597,745 |
| Greece | 4,431,776 | 569,658 |
| Hungary | 3,538,825 | 464,277 |
| Bulgaria | 3,137,749 | 411,765 |
| Great Britain | 2,442,124 | 493,429 |
| Israel | 803,917 | 76,845 |
| Republic of Yugoslavia | 770,328 | 97,355 |
| Croatia | 660,867 | 80,735 |
| Romania | 446,361 | 55,765 |
| Austria | 405,787 | 36,607 |
| Mexico | 349,599 | 34,003 |
| Jamaica | 300,912 | 34,472 |
| Poland | 284,707 | 19,017 |
| Slovenia | 217,263 | 29,259 |
| Macedonia | 197,095 | 26,433 |
| Lebanon | 184,814 | 5,986 |
| Japan | 163,914 | 16,546 |
| Republic of Moldova | 119,601 | 11,499 |
| Denmark | 92,134 | 8,506 |
| Switzerland | 84,129 | 3,973 |
| Uruguay | 82,329 | 6,394 |
| Morocco | 57,778 | 5,255 |
| Czech Republic | 39,030 | 5,229 |
| Turkey | 20,973 | 2,669 |
| Belgium | 15,530 | 869 |
| Cyprus | 13,550 | 1,065 |
| People's Republic of China | 9,685 | 849 |
| Estonia | 8,080 | 815 |
| Algeria | 6,427 | 1,123 |
| Georgia | 411 | 38 |
| **Grand Total** | **912,979,863** | **88,809,312** |

The following table shows LCBO Beer sales by country of origin for fiscal 2001-02.

## Beer 2001-02

| Country Name | NET SALES | LITRES |
|---|---|---|
| Canada | 251,382,379 | 72,879,698 |
| Netherlands | 65,708,547 | 15,680,574 |
| Mexico | 59,275,991 | 14,543,003 |
| U.S.A. | 57,022,872 | 18,367,517 |
| Germany | 24,317,418 | 6,861,277 |
| Great Britain | 14,567,955 | 3,971,810 |
| Ireland | 12,085,670 | 2,772,989 |
| Poland | 7,552,302 | 2,257,705 |
| Belgium | 7,151,372 | 1,588,712 |
| Denmark | 6,652,687 | 2,045,770 |
| Czech Republic | 4,173,072 | 1,163,398 |
| Japan | 2,955,961 | 663,345 |
| People's Republic of China | 1,131,895 | 311,892 |
| Jamaica | 1,043,543 | 279,479 |
| Trinidad | 944,198 | 238,352 |
| Singapore | 584,207 | 181,335 |
| Italy | 517,190 | 135,038 |
| Portugal | 511,893 | 137,595 |
| South Africa | 358,649 | 110,013 |
| New Zealand | 337,468 | 93,056 |
| Philippines | 334,806 | 102,642 |
| Croatia | 181,108 | 48,933 |
| Ukraine | 120,867 | 33,710 |
| Slovakia | 120,787 | 38,026 |
| Greece | 118,122 | 30,520 |
| Cuba | 112,457 | 27,105 |
| Russian Federation | 82,224 | 22,902 |
| Cyprus | 58,995 | 13,984 |
| India | 58,150 | 14,573 |
| Australia | 45,704 | 10,618 |
| Spain | 37,421 | 10,102 |
| Panama | 33,602 | 9,202 |
| Austria | 33,399 | 6,315 |
| France | 27,290 | 3,620 |
| Lebanon | 24,390 | 5,841 |
| Thailand | 10,519 | 2,484 |
| Israel | 4,476 | 1,191 |
| Brazil | 1,136 | 482 |
| **Grand Total** | **519,680,722** | **144,664,808** |

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 2001-02, the LCBO sold products from 68 different countries.

# AUDITOR'S REPORT

## TO THE LIQUOR CONTROL BOARD OF ONTARIO AND TO THE MINISTER OF CONSUMER AND BUSINESS SERVICES

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2002 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2002, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters, FCA
*Provincial Auditor*
*Toronto, Ontario*
*June 12, 2002*

## Balance Sheet As at March 31, 2002

| Assets (in $000s) | 2002 | 2001 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 80,108 | 47,961 |
| Accounts receivable, trade and others | 19,298 | 15,649 |
| Inventories | 226,285 | 260,619 |
| Prepaid expenses | 8,337 | 6,086 |
| | **334,028** | **330,315** |
| **Long-term** | | |
| Capital assets (Note 5) | 197,895 | 186,996 |
| | **531,923** | **517,311** |

| Liabilities and Retained Income | 2002 | 2001 |
|---|---|---|
| **Current** | | |
| Accounts payable and accrued liabilities | 216,518 | 218,836 |
| Current portion of accrued benefit obligation (Note 3) | 3,525 | 4,202 |
| | **220,043** | **223,038** |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 28,024 | 26,329 |
| Retained income | 283,856 | 267,944 |
| | **531,923** | **517,311** |

**Commitments and Contingencies (Notes 6 and 8)**

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
*Chair and Chief Executive Officer*

Thom A. Bennett
*Member; Chair, Audit and Governance Review Committee*

## Statement of Income and Retained Income

Year ended March 31, 2002

| (in $000s) | 2002 | 2001 |
|---|---|---|
| **Sales and other income** | **2,939,563** | **2,734,937** |
| **Costs and expenses** | | |
| Cost of sales | 1,529,018 | 1,390,575 |
| Retail stores and marketing | 344,759 | 339,017 |
| Warehousing and distribution | 54,137 | 46,565 |
| Administration | 46,477 | 41,962 |
| Amortization | 44,260 | 40,546 |
| | **2,018,651** | **1,858,665** |
| Net income for the year | 920,912 | 876,272 |
| Retained income, beginning of year | 267,944 | 259,622 |
| Workers Compensation Benefits (Note 3) | – | (17,950) |
| | **1,188,856** | **1,117,944** |
| Deduct: Dividend paid to Province of Ontario | 901,000 | 846,000 |
| Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9) | 4,000 | 4,000 |
| | **905,000** | **850,000** |
| **Retained income, end of year** | **283,856** | **267,944** |

See accompanying notes to financial statements.

## Statement of Cash Flows

Year ended March 31

| (in $000s) | | |
|---|---|---|
| **Cash provided from operations** | | |
| Net income | 920,912 | 876,272 |
| Amortization | 44,260 | 40,546 |
| Loss on sale of capital assets | 200 | 192 |
| | **965,372** | **917,010** |
| **Non-cash balances related to operations** | | |
| Working capital | 26,116 | 4,999 |
| Accrued benefit obligation | 1,018 | 429 |
| | **992,506** | **922,438** |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (55,735) | (55,689) |
| Proceeds from sale of capital assets | 376 | 79 |
| | **(55,359)** | **(55,610)** |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (901,000) | (846,000) |
| Payment to municipalities on behalf of the Province of Ontario | (4,000) | (4,000) |
| | **(905,000)** | **(850,000)** |
| Increase in cash during the year | 32,147 | 16,828 |
| Cash and cash equivalents, beginning of year | 47,961 | 31,133 |
| **Cash and cash equivalents, end of year** | **80,108** | **47,961** |

See accompanying notes to financial statements.

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### (d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

## 3. Non-pension Employee Future Benefits

The Board is responsible for the accrued employee termination payments.

Also effective April 1, 2000, the Board recognized its workers compensation obligation in the amount of $17.9 million which was not funded. Fiscal 2001 was the first year of recognizing this obligation in accordance with the Canadian Institute of Chartered Accountants' new recommendations for accounting for employee future benefits. The new recommendations had been adopted on a retroactive basis without restatement. The impact on prior years had been reflected as an adjustment to opening retained earnings. The recognized amount was determined from actuarial calculations provided by the Workplace Safety and Insurance Board.

In fiscal 2002, the cost of these employee future benefits was $5.8 million (2001 – $5.2 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2002 is $31.5 million (2001 – $30.5 million) of which $3.5 million (2001 – $4.2 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined benefit pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2002, the expense was $10.1 million (2001 – $9.8 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 5. Capital Assets

| (in $000's) | 2002 Cost | 2002 Accumulated Amortization | 2002 Net Book Value | 2001 Net Book Value |
|---|---|---|---|---|
| Land | 13,737 | — | 13,737 | 13,835 |
| Buildings | 285,851 | 193,147 | 92,704 | 99,177 |
| Furniture and fixtures | 42,093 | 29,465 | 12,628 | 8,091 |
| Leasehold improvements | 125,812 | 80,715 | 45,097 | 32,480 |
| Computer equipment | 102,818 | 69,089 | 33,729 | 33,413 |
| | **570,311** | **372,416** | **197,895** | **186,996** |

## 6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | (in $000s) |
|---|---|
| 2003 | 30,625 |
| 2004 | 28,173 |
| 2005 | 25,166 |
| 2006 | 22,672 |
| 2007 | 20,716 |
| Thereafter | 150,032 |
| | **277,384** |

## 7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2002, the Board had $3,702,693 (2001 – $1,469,069) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

## 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. Payment to Municipalities

During fiscal 2002, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute $4.0 million (2001 – $4.0 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million annually in each of the next four years.

# BOARD MEMBERS

*Members of the LCBO Board, from left to right: John C. Hopper, Gayle Christie, Perry Miele, Merle A. Jacobs and Thom A. Bennett. Absent: John S. Lacey.*

## MEMBERS OF THE LCBO BOARD, LIKE THOSE OF OTHER GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDERS-IN-COUNCIL. APPOINTMENTS, UP TO FIVE YEARS, ARE SOMETIMES RENEWED.

**ANDREW S. BRANDT:**
Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February 2003.

Re-appointed in 2000 for a fourth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to *Financial Post Magazine*, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Mérite Agricole and a Chevalier in the Confrérie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland. In 2001, he was one of six finalists for the 18th Annual Marketer of the Year Award, given by the Toronto chapter of the American Marketing Association.

**THOM A. BENNETT:**
Appointed October 11, 2000.
Term expires October 2003.

President and owner of Bennett Insurance Agency Ltd., Mr. Bennett is a seasoned senior executive with a proven business management background and specific expertise in the field of employee benefits. He has served as Chair of the Ontario Video Lottery Corporation and Vice Chair of the Ontario Lottery Corporation, where he took part in a major restructuring program designed to enhance the corporation's efficiency and profitability. A resident of Ottawa, he sits on the Board of Directors of the University of Ottawa Heart Institute; has coached little league baseball in Nepean; has served as Secretary of the Kiwanis Club of South Ottawa; and was a Cub Leader with the Boy Scouts of Canada.

**GAYLE CHRISTIE:**
Appointed June 13, 2001.
Term expires June 2004.

Ms. Christie is a Toronto government relations consultant who advises private-sector clients on how to work with municipalities, drawing on her experience as a former trustee, councillor and mayor of the city of York, which was amalgamated into Toronto in 1997. As mayor of York from 1978-82, she established the city's first internal audit committee and instituted other reforms to increase productivity and accountability. She then spent eight years with accounting firm Clarkson Gordon (now part of Ernst & Young), further developing her skills. In addition to her consultancy, she sits on several boards, including Humber River Regional Hospital, Runnymede Chronic Care Hospital and Yorktown Community Services.

**JOHN C. HOPPER:**
Appointed September 8, 1997.
Term expires September 2003.

A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay city councillor, he has a long history of community service: he is a member of the Masonic Lodge; a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a member of the Board of Governors of Thorneloe University in Sudbury; and he chaired the $7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

**MERLE A. JACOBS:**
Appointed December 17, 1997.
Term expires December 2003.

Dr. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at a Toronto hospital. She has also pursued her education, and has completed a PhD in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has maintained her skills as a registered nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is a member of the Registered Nurses Association of Ontario's Mental Health Interest Group, as well as its Policy Committee. She is a director of Roots Cultural Foundation and Royal Business Training Centre. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues. She is now an Assistant Professor in York University's Department of Sociology. She recently edited the 2002 book, *Women at the Margins: Is Anyone Listening?*, a reader focusing on gender equality in the workplace and in society.

**JOHN S. LACEY:**
Appointed June 26, 1996.
Appointed Vice Chair June 25, 2001. Term expired June 2002.

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaws, and the Holiday Inn and Marriott hotel chains. Now Executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada from South Africa in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

**PERRY MIELE:**
Appointed April 3, 2002.
Term expires April 2005.

Chair and Partner of Financial Task Force Inc., a Canadian merchant banking firm in Toronto, Mr. Miele has more than 20 years of senior-level experience as a strategic builder of businesses across a broad range of categories. After serving as chief of staff to the Hon. Pat Carney during NAFTA negotiations, he joined integrated marketing services company Gingko in 1987 as a partner and quickly helped the firm to grow. The company merged with DraftWorldwide of Chicago in 1988 and he became President of the International Group, responsible for all operations outside the United States, consisting of 36 offices operating in 24 countries. He also headed the company's international expansion plan with a combination of strategic acquisitions and growth within existing operations. Well versed in consumer insight and research methodology, Mr. Miele has worked in every marketing discipline, including advertising, sales promotion, public relations, direct marketing, telemarketing and digital marketing.

# USEFUL FACTS

**(FOR THE FISCAL YEAR ENDED MARCH 31, 2002, UNLESS OTHERWISE NOTED)**

## *The Marketplace*

| | |
|---|---|
| 599 | Number of LCBO stores serving communities across Ontario |
| 105 | Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store |
| 849 | Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately operated duty-free stores in Ontario |
| 45.1 | Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO |
| $7.5 billion | Total estimated value of Ontario's beverage alcohol market |
| $432 million | Estimated value of Ontario's illegal alcohol market |

## *Our Stores*

| | |
|---|---|
| 78 | Number of LCBO stores offering more than 2,500 brands for sale |
| 196 | Number of LCBO stores offering 1,500-2,500 brands for sale |
| 165 | Number of LCBO stores offering 1,000-1,500 brands for sale |
| 141 | Number of LCBO stores offering 500-1,000 brands for sale |
| 19 | Number of LCBO stores offering fewer than 500 brands for sale |
| 13,104 | Number of product tastings conducted in LCBO stores in 2001-02 |
| 1 | Percentage of customers in a February 2002 survey who said they were dissatisfied with service in LCBO stores |
| 94 million | Total number of transactions in LCBO stores in 2001-02 |
| 28.5 | Percentage of all LCBO transactions paid by debit card |
| 24 | Percentage of all LCBO transactions paid by credit card |

## *Our Financial Performance*

| | |
|---|---|
| $2.9 billion | The LCBO's net sales and other income in 2001-02 |
| $905 million | Dividend the LCBO transferred to the Government of Ontario for 2001-02 (excluding taxes) |
| $4.1 billion | Amount the LCBO has transferred the last five fiscal years combined (excluding taxes) |
| 333 | Percentage return on taxpayers' equity in 2001-02 |
| 31.5 | The LCBO's profit margin, expressed as a percentage, in 2001-02 |
| 16.7 | The LCBO's operational expenses as a percentage of net sales for 2001-02 |
| $275 million | Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 2001-02 |
| $369 million | Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties in 2001-02 |
| $31 million | Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) in 2001-02 |

## *Products and Pricing*

| | |
|---|---|
| 12,013 | Total number of products available through LCBO stores, catalogues and private ordering service in 2001-02 |
| 2,858 | Number of new VINTAGES products offered in stores and through the *Classics Catalogue* in 2001-02 |

| | |
|---|---|
| 68 | Number of countries from which the LCBO bought products in 2001-02 |
| 638 | Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program in 2001-02 |
| 431 | Number of products that carried a "value-add" bonus item in 2001-02 |
| 1,596 | Number of products with bonus AIR MILES Rewards in 2001-02 |
| 81 | Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups |
| 60 | Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups |
| 54 | Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups |

## *Our Employees*

| | |
|---|---|
| 3,225 | Number of permanent full-time LCBO employees |
| 3,294 | Number of casual employees working in LCBO stores at fiscal-year end |
| 135 | Number of LCBO product consultants available to offer expert advice to customers |
| 4,195 | Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date |
| 1,965 | Number of LCBO Retail staff who received training in 2001-02 to help prevent service to minors or people who appear intoxicated |
| 12,315 | Number of LCBO Retail staff who have received responsible service training to date |
| 104,877 | Number of calls handled by LCBO Infoline officers in fiscal 2001-02 |
| 5,660 | Number of e-mails handled by LCBO Infoline officers in fiscal 2001-02 |

## *Our Fundraising*

| | |
|---|---|
| $146,223 | Amount donated by LCBO employees to the United Way in calendar 2001 |
| 39 | Percentage increase over previous year |
| $276,289 | Amount raised for charity through donation boxes in LCBO stores in calendar 2001 (Note: This does not include funds raised for local charities in January and June, or funds raised by the Royal Canadian Legion in November.) |

## *Social Responsibility*

| | |
|---|---|
| 1,225,169 | Number of customers challenged for proof of age or sobriety by LCBO staff in 2001-02 |
| 76,929 | Number refused service by LCBO employees in 2001-02 |
| 4,101 | Number of BYID tamper-resistant identification cards issued by the LCBO during 2001-02 |
| 19,620 | Total number of BYID cards issued as of March 31, 2002 |

## *Quality Assurance*

| | |
|---|---|
| 316,260 | Number of product tests carried out in 2001-02 by LCBO's Quality Assurance laboratory |
| 332 | Number of products rejected by Quality Assurance in 2001-02 for health concerns, consumer safety issues and other quality control problems |
| 374 | Number of seized products tested for enforcement purposes by Quality Assurance in 2001-02 |
| 3 | Number of product recalls issued by Quality Assurance in 2001-02 |

LCBO

CELEBRATE

*seventy-five years*

# LCBO

ANNUAL REPORT 2002-03



# Our eighth straight record year

# The LCBO 2002–03 Annual Report

Under the *Liquor Control Act,* we are required to prepare an annual report to the Minister of Consumer and Business Services. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.

## Contents



## Members of the LCBO Board (during fiscal 2002–03)

Andrew S. Brandt, *Chair and Chief Executive Officer*

John Hopper, *Vice Chair; Member, Audit and Governance Review Committee*

Thom A. Bennett, *Member; Chair, Audit and Governance Review Committee*

Gayle Christie, *Member; Member, Audit and Governance Review Committee*

Bev Hammond, *Member*

Dr. Merle A. Jacobs, *Member*

Perry Miele, *Member*

John S. Lacey *(Vice-Chair; Member, Audit and Governance Review Committee; term expired June 2002)*

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Bob Peter, *President and Chief Operating Officer*

## Letter of Transmittal

The Hon. Tim Hudak
*Minister of Consumer and Business Services*

Dear Minister,

I have the honour to present you with the 2002–03 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
*Chair and Chief Executive Officer*

## Credits


The LCBO wishes to thank the Office of the Provincial Auditor and the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2002–03.

# Statistical Insert

FOR LCBO ANNUAL REPORT, FISCAL 2002-03

## Retail Price Breakdowns

### Spirits

| Examples as at March 31, 2003 for 750 mL bottle in Canadian dollars (40% Alcohol) | Imported U.S. | Imported Non - U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $3.4193 | $3.4448 | $3.8378 |
| Federal Excise Tax | $3.3198 | $3.3198 | $3.3198 |
| Federal Import Duty | $0.0000 | $0.0148 | $0.0000 |
| Freight | $0.2500 | $0.2125 | $0.0400 |
| **Total Landed Cost** | **$6.9891** | **$6.9919** | **$7.1976** |
| LCBO Markup | $10.1412 | $10.1383 | $9.9327 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$17.44** | **$17.44** | **$17.44** |
| Goods and Services Tax | $1.22 | $1.22 | $1.22 |
| Provincial Retail Sales Tax | $2.09 | $2.09 | $2.09 |
| **Consumer Price** | **$20.75** | **$20.75** | **$20.75** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.67 | $3.66 | $3.88 |
| Government of Canada | $4.54 | $4.55 | $4.54 |
| Government of Ontario | $12.54 | $12.54 | $12.33 |

### Wines

| Examples as at March 31, 2003 for 750 mL bottle in Canadian dollars | Imported U.S. | Imported Non - U.S. | Domestic 100% Ont. |
|---|---|---|---|
| Payment to Supplier | $3.6942 | $3.6345 | $4.0272 |
| Federal Excise Tax | $0.3842 | $0.3842 | $0.3842 |
| Federal Import Duty | $0.0000 | $0.0281 | $0.0000 |
| Freight | $0.1669 | $0.2038 | $0.0000 |
| **Total Landed Cost** | **$4.2453** | **$4.2506** | **$4.4114** |
| LCBO Markup | $2.7170 | $2.7204 | $2.5586 |
| LCBO Wine Levy | $1.1250 | $1.1250 | $1.1250 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0100 | $0.0000 | $0.0000 |
| **Basic Price** | **$8.40** | **$8.40** | **$8.40** |
| Goods and Services Tax | $0.59 | $0.59 | $0.59 |
| Provincial Retail Sales Tax | $1.01 | $1.01 | $1.01 |
| **Consumer Price** | **$10.00** | **$10.00** | **$10.00** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.86 | $3.84 | $4.03 |
| Government of Canada | $0.97 | $1.00 | $0.97 |
| Government of Ontario | $5.17 | $5.16 | $5.00 |

## Beer

**Examples as at March 31, 2003 for a case of 24 x 341 mL bottles in Canadian dollars**

| | Imported U.S. | Imported Non - U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | 11.1949 | 11.0813 | 13.0619 |
| Federal Excise Tax | 2.2903 | 2.2903 | 2.2903 |
| Federal Import Duty | 0.0000 | 0.0000 | 0.0000 |
| Freight | 0.5248 | 0.6384 | 0.0000 |
| **Total Landed Cost** | **14.0100** | **14.0100** | **15.3522** |
| LCBO In-store COS | 4.9595 | 4.9595 | 4.9595 |
| LCBO Out-of-store COS | 1.3422 | 1.3422 | 0.0000 |
| LCBO Markup | 4.1779 | 4.1779 | 4.1779 |
| LCBO Bottle Levy | 1.4404 | 1.4404 | 1.4404 |
| LCBO Environment Fee | 0.0000 | 0.0000 | 0.0000 |
| LCBO Rounding Revenue | 0.0000 | 0.0000 | 0.0000 |
| **Basic Price** | **25.93** | **25.93** | **25.93** |
| Goods and Services Tax | $1.81 | $1.81 | $1.81 |
| Provincial Retail Sales Tax | $3.11 | $3.11 | $3.11 |
| Container Deposit | $2.40 | $2.40 | $2.40 |
| **Consumer Price** | **33.25** | **33.25** | **33.25** |
| Supplier (including freight) | $11.72 | $11.72 | $13.06 |
| Government of Canada | $4.10 | $4.10 | $4.10 |
| Government of Ontario | $15.03 | $15.03 | $13.69 |
| Container Deposit | $2.40 | $2.40 | $2.40 |

**Revenue Distribution**

| | Domestic Spirits | Domestic Wine | Domestic Beer |
|---|---|---|---|
| Supplier | 19% | 40% | 39% |
| Federal Government | 22% | 10% | 13% |
| Provincial Government | 59% | 50% | 41% |
| Deposit | | | 7% |

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven-Year Financial Performance Review

(values in $000s)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| Sales and Other Income | $3,119,240 | $2,939,563 | $2,734,937 | $2,549,458 | $2,349,832 |
| Cost of Sales | $1,653,739 | $1,529,018 | $1,390,575 | $1,288,903 | $1,165,849 |
| Gross Profit | $1,465,501 | $1,410,545 | $1,344,362 | $1,260,555 | $1,183,983 |
| Per Cent | 46.98% | 47.98% | 49.16% | 49.44% | 50.39% |
| Operating Expenses | $525,959 | $489,633 | $468,090 | $414,861 | $374,558 |
| Net Income | $939,542 | $920,913 | $876,272 | $845,694 | $809,425 |
| **Statement of Cash Flow** | | | | | |
| Cash Flow from Operations | $985,800 | $965,372 | $917,010 | $876,196 | $834,465 |
| Change in Working Capital | $28,885 | $27,134 | $5,428 | ($15,198) | ($8,651) |
| Cash Used for Investing Activities | ($73,408) | ($55,359) | ($55,610) | ($54,443) | ($40,265) |
| Cash Used for Provincial Transfers | ($975,000) | ($905,000) | ($850,000) | ($800,000) | ($780,000) |
| Decrease/Increase in Cash During the Year | ($33,723) | $32,147 | $16,828 | $6,555 | $5,549 |
| **Financial Position** | | | | | |
| Current Assets | $322,892 | $334,028 | $330,315 | $308,724 | $275,774 |
| Current Liabilities | $299,539 | $248,067 | $249,367 | $221,226 | $210,029 |
| Working Capital | $23,353 | $85,961 | $80,948 | $87,498 | $65,745 |
| Fixed Assets | $225,045 | $197,895 | $186,996 | $172,124 | $148,183 |
| Total Assets | $547,937 | $531,923 | $517,311 | $480,848 | $423,957 |
| **Financial Ratios** | | | | | |
| Profit Margin | 30.33% | 31.53% | 32.28% | 33.38% | 34.80% |
| Return on Shareholders' Equity | 353.04% | 333.79% | 332.19% | 357.17% | 406.31% |
| Current Ratio | 1.08 | 1.35 | 1.32 | 1.40 | 1.31 |
| **Statistics** | | | | | |
| Inventory Turnover | 7.46 | 5.95 | 5.29 | 5.26 | 5.40 |
| Number of Permanent Employees | 3,362 | 3,225 | 3,174 | 3,074 | 3,014 |
| Sales per Permanent Employee | $921,383 | $905,518 | $855,175 | $824,206 | $771,623 |
| Number of Stores | 597 | 599 | 601 | 602 | 600 |
| Number of Regular Products Listed | 3,476 | 3,487 | 3,478 | 3,496 | 3,366 |

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars. Inventory turnover has been restated from 1999 onwards due to new methodology being used.

| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| $2,160,843 | $2,013,873 | $1,909,804 | $1,808,518 | $1,764,731 | $1,786,479 |
| $1,064,286 | $988,386 | $919,268 | $858,190 | $832,106 | $841,060 |
| $1,096,557 | $1,025,487 | $990,536 | $950,328 | $932,625 | $945,419 |
| 50.75% | 50.92% | 51.87% | 52.55% | 52.85% | 52.92% |
| $351,653 | $324,457 | $323,819 | $313,029 | $333,716 | $332,953 |
| $744,904 | $701,030 | $666,717 | $637,299 | $598,909 | $612,466 |
| **Statement of Cash Flow** | | | | | |
| $769,507 | $723,197 | $687,663 | $655,198 | $619,979 | $635,298 |
| ($29,537) | $49,819 | $9,659 | $5,473 | ($15,824) | ($8,694) |
| ($25,524) | ($19,424) | ($26,256) | ($26,895) | ($14,753) | ($21,075) |
| ($745,000) | ($730,000) | ($680,000) | ($630,000) | ($585,000) | ($615,000) |
| ($30,554) | $23,592 | ($8,934) | $3,776 | $4,402 | ($9,471) |
| **Financial Position** | | | | | |
| $230,720 | $256,209 | $239,516 | $229,541 | $201,204 | $192,955 |
| $179,175 | $203,647 | $160,727 | $132,159 | $92,813 | $104,789 |
| $51,545 | $52,562 | $78,789 | $97,382 | $108,391 | $88,166 |
| $132,958 | $132,037 | $134,780 | $129,470 | $120,474 | $126,790 |
| $363,678 | $388,246 | $374,296 | $359,011 | $321,678 | $319,745 |
| **Financial Ratios** | | | | | |
| 35.03% | 35.11% | 35.33% | 35.61% | 34.24% | 34.36% |
| 403.63% | 352.13% | 302.76% | 285.63% | 269.90% | 281.94% |
| 1.29 | 1.26 | 1.49 | 1.74 | 2.17 | 1.84 |
| **Statistics** | | | | | |
| 5.53 | 5.02 | 5.07 | 4.92 | 5.02 | 4.70 |
| 2,934 | 2,828 | 2,803 | 2,824 | 2,743 | 3,100 |
| $724,866 | $706,079 | $673,273 | $633,656 | $637,678 | $574,998 |
| 596 | 595 | 596 | 597 | 600 | 611 |
| 3,098 | 2,960 | 3,149 | 3,053 | 2,824 | 2,737 |

LCBO

# Minister's Message

As Minister of Consumer and Business Services, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2002–03.

The LCBO has once again fulfilled its mandate in fiscal 2002–03 by:

- providing excellent service and product selection in improved shopping environments
- maximizing its dividend to the taxpayers and Government of Ontario, transferring a record $975 million, not including taxes, to support this government's programs and services
- continuing to improve operational efficiencies
- and taking a leadership role in promoting the socially responsible use of beverage alcohol.

In fiscal 2002–03, the LCBO also helped Premier Ernie Eves' government achieve its policy objectives in two key areas: support of the Ontario wine industry and expansion of the agency store program.

As you'll note on page 32, the LCBO worked with the government and the Ontario wine industry to develop and implement a number of initiatives to help consumers learn more about Ontario wines. Every bottle of Ontario wine sold in LCBO stores, and through other outlets such as winery retail stores and licensed establishments, helps strengthen our province by providing jobs at wineries and in ancillary industries ranging from grape growing to tourism. We expect the ongoing collaboration between government, the LCBO and the wine industry will continue to build the market share of Ontario wines in the years to come.

In the fall of 2001, our government announced an expansion of the agency store program (page 36), a public-private partnership that has been in existence since 1962. Our goal was to improve beverage alcohol service in communities too small to support a regular LCBO or Beer Store outlet, and help these communities strengthen their economic bases by encouraging residents and visitors to shop locally. The network expanded by some 50 stores in fiscal 2002–03 and will expand by another 66 in fiscal 2003–04, benefitting under-serviced communities, small business owners and their customers.

As you read this report, you will note many other ways in which the LCBO serves the people of Ontario:

- by keeping beverage alcohol out of the hands of minors and people who appear intoxicated
- by advertising against impaired driving with partners such as MADD Canada
- by protecting the health of Ontario consumers through extensive product testing at its Quality Assurance laboratory
- by raising hundreds of thousands of dollars a year for charitable causes
- and by helping communities cover costs associated with recycling beverage alcohol containers through municipal Blue Box programs.

As an operational enterprise of the provincial government, the LCBO must meet not only the government's expectations but also those of its shareholders, the citizens of Ontario. As the Minister responsible, I have encouraged and worked with the LCBO to meet and hopefully exceed these expectations, and by many measures it has done so.

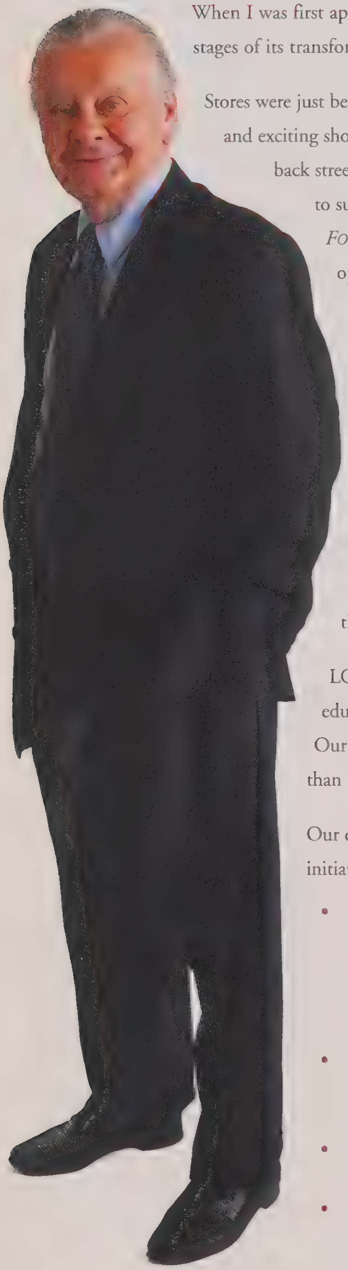
I will continue to work closely with the LCBO Board, employees and trade partners – along with my colleagues in government and staff – to ensure this public asset continues to be well managed and the Ontario public continues to be well served. In this regard, the LCBO's new *Discover the World* five-year plan provides a clear roadmap for further progress and enhanced customer service.

Sincerely,

Tim Hudak
*Minister of Consumer*
*and Business Services*

# Chair's Message

**With our new five-year plan, a seasoned senior management team, a strong Board and the ongoing support of government, LCBO employees are poised to meet and exceed stakeholder expectations in fiscal 2003–04 and beyond**



When I was first appointed Chair and CEO of the LCBO in February 1991, the organization was still in the early stages of its transformation from control-oriented distributor to customer-focused retailer.

Stores were just beginning to undergo a much-needed modernization from drab, poorly located outlets to appealing and exciting shopping environments. Backed by market research and analysis, we started moving more stores from back streets to more accessible and convenient locations. We expanded our selection to include products to suit every budget and taste. New marketing initiatives, such as the popular consumer magazine *FOOD & DRINK*, helped us position beverage alcohol as part of a balanced lifestyle. Employees developed their product knowledge and service skills so they could better inform customers about the products we sell. Social responsibility campaigns were developed and delivered to deter underage purchases and impaired driving.

Change wasn't always easy. As in many organizations, it required a shift in culture. But with the right tools, training and leadership, our employees were able to embrace and adapt to change.

Now in my fifth term, I oversee an entirely different LCBO: a modern retailer often cited by others as a model government enterprise; the winner of more than 100 awards in the past decade for store design, retail innovation, social responsibility, employee development, marketing and communications; confident in its ability to provide outstanding customer service; proud of the contributions it makes to communities across Ontario and to government coffers.

LCBO employees have delivered eight straight record dividends to the government, to help fund education, health care and other important government social programs, services and capital projects. Our dividend for fiscal 2002–03 – $975 million, which does not include taxes – is $70 million higher than last year and $360 million higher than it was a decade earlier.

Our dividend alone is a strong indicator of the success we enjoyed in fiscal 2002–03. The following initiatives and accomplishments illustrate our success in other areas.

- For the third straight year, we challenged more than 1.1 million would-be customers because they appeared underage or intoxicated; nearly 70,000 were refused service. We also partnered with MADD Canada on a TV commercial that encouraged people to stop their friends from drinking and driving, and developed other materials to encourage people who drink to do so responsibly (page 40).
- We worked with partners in government and the Ontario wine industry on numerous initiatives to promote Ontario wine sales in our stores and build the domestic industry's share of the Ontario market (page 32).
- We expanded the agency store program to improve customer service – and local economies – in smaller communities that can't support a regular LCBO store or Beer Store (page 36).
- We upgraded and automated two of our five warehouses to improve product flow and service to stores, and developed plans to expand our facility in London to nearly double its throughput and storage capacity (page 39).

LCBO

The Source for Entertaining Ideas

Andrew S. Brandt
Chair & Chief Executive Officer

55 Lakeshore Blvd. East
Toronto, Ontario
M5E 1A4

Tel.: 416·864·2519
Fax: 416·864·2476

October 2003

Dear LCBO Stakeholder:

Entitled *Our Eighth Straight Record Year*, our Annual Report for 2002-03 describes how the LCBO transferred a record $975-million dividend to the province – an increase of $70 million over last year's record – and $260 million more than a decade earlier. For the fifth straight year, the LCBO's total transfer (its dividend and provincial sales tax combined) was well over $1 billion.

We continued to outperform most comparable provincial liquor jurisdictions in volume and revenue growth. We also outperformed the Ontario and Canadian retail sectors as a whole.

Key factors behind this success include: knowledgeable and helpful staff; well-planned store upgrades that provide a solid return on our investment; ongoing improvements in customer service and marketing; growing customer appreciation of premium products, improved efficiency and productivity; reductions in excess inventory; and excellent support from our suppliers.

The year was not without its challenges, as expenses rose slightly more than planned, and margins continued to decline due to changing consumer tastes that favour lower-margin products such as beer and coolers over higher-margin spirits. Let me assure all stakeholders that we are taking active measures to address both concerns in the year ahead and beyond.

The 2002-03 Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to meet and exceed the expectations of its stakeholders. It highlights, for example, the many social responsibility initiatives we undertook to promote responsible drinking and prevent impaired driving; our support of the Ontario wine industry and the expansion of the agency store program; and our efforts to improve our store network and the supply chain that keeps stores stocked.

It also provides a detailed look at our new five-year strategic plan and new brand vision, *Discover the World*, which took effect April 1, 2003. We expect this plan, which covers the years 2003-08, to lead us to continued success in such key areas as customer service, social responsibility, profitability, support of Ontario wines, and supplier and employee relations.

With the support of the government, an involved and committed Board, a well-trained, motivated workforce and our suppliers, we expect to transfer a dividend of more than $1 billion in fiscal 2003-04, which would mark a ninth straight record year, while continuing to improve customer service, financial performance, operational efficiency and social responsibility.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

- We expanded, renovated or relocated more than 50 stores – including our flagship Summerhill store – to offer customers a more appealing and informative shopping experience and provide a solid return on our capital investment (page 34).
- We worked with suppliers to improve product sales forecasting and replenishment practices (page 38).
- We held our first-ever commercial wine auction, offering collectors, connoisseurs, licensees and other enthusiasts the opportunity to buy – or sell – some of the world's finest wines.
- We upgraded our point-of-sale and sales audit systems to meet the needs of today's fast-paced retail environment and improve the integrity of sales data transmitted to Head Office.

Over the next five years we will build on this success, guided by a new five-year strategic plan designed to maximize growth and minimize risk through fiscal 2007–08.

Since 1987, strategic planning has played a critical role in defining where the organization wants to go and how it intends to get there. Each five-year plan we developed has been more ambitious than the last in terms of goals set, and more successful in terms of what we achieved.

The new plan leaves us poised for five more years of continued growth and improvement. While it did not take effect until April 1, 2003 – technically the start of the 2003–04 fiscal year – most of the work on the plan was done during fiscal 2002–03.

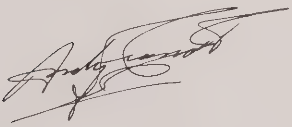
As you'll read on page 19, the plan provides a new mission statement and brand vision: *Discover the World*. It lays out in detail how we will continue to increase customer and employee satisfaction, build support for Ontario wines, maximize our contributions to the Ontario government and develop closer relationships with suppliers, while maintaining high standards of social responsibility.

We designed this plan to better equip our employees to take every customer on an engaging and enjoyable journey of discovery, demystifying the products we sell and helping them make more informed choices.

To be sure, there are significant challenges ahead. As President and COO Bob Peter notes on page 4, expenses in fiscal 2002–03 were slightly higher than planned and an ongoing shift in consumer tastes toward lower-margin products such as beer and coolers continued to drive our margin rate downwards. But with this plan as our roadmap, the next five years should prove as successful as the last five, as we continue to modernize, improve and transform ourselves on a daily basis to better serve customers and stakeholders.

The people of Ontario have become more sophisticated and mature in their knowledge of and attitude towards beverage alcohol, and expect us to be able to discuss and recommend products with confidence and expertise. The Government of Ontario expects us to deliver our services efficiently and cost-effectively and help it achieve its objectives in the areas of job creation, economic growth, support for domestic industries and opportunity for small business. Our social responsibility partners – and the public at large – expect us to promote moderation and the responsible use of alcohol, and to provide strong leadership and resources in the fight against impaired driving and underage drinking. Our suppliers and their agents expect us to collaborate with them on initiatives that give them fair opportunity to succeed in Ontario's competitive marketplace. Our employees expect us to provide a safe and productive workplace in which they can develop and fulfill their career aspirations.

With our new five-year plan, a seasoned senior management team, a strong Board and the ongoing support of government, I am confident our employees will deliver on these expectations in fiscal 2003–04 and beyond.



Andrew S. Brandt
*Chair and Chief Executive Officer*
*Toronto, Ontario*
*August 2003*

# President's Message

## We had an outstanding year in terms of sales and dividend but had to contend with rising expenses and declining margins

LCBO net sales rose by 6.1 per cent to an all-time high of $3.12 billion, the first time in our history that we broke the $3-billion mark. Given that net sales were under $2 billion as recently as 1995–96, this is a feat of which employees and stakeholders should be proud – especially since growth did not come at the expense of social responsibility.

Our dividend increased by $70 million to an eighth straight record of $975 million to help support government programs, services and capital projects. This increase was our largest ever in absolute dollars.

We made significant progress in our drive to reduce excess inventory and, after early growing pains that led to shortages of some products in some stores last summer, we improved product flow, lowered our average rolling inventory and freed up cash to upgrade more stores and increase our dividend.

There were also challenges to face, as we had to contend with rising expenses and declining margins.

Expenses as a percentage of net sales came in at 16.7, higher than the planned figure of 16.5, for reasons explained on page 14. Because of this, the LCBO did not meet certain productivity targets for the year, despite increased sales.

Our margin rate declined again as the product mix continued to shift from higher-margin spirits to lower-margin beers and coolers. As a result, gross margins as a percentage of net sales dropped by a full percentage point in fiscal 2002–03, from 47.6 to 46.6 per cent.

In sum, we performed better than last year, but not as well as planned. Our targets were aggressive but setting the bar high has contributed to the ongoing improvement and success of the LCBO.

For 2003–04, we have again set aggressive sales and dividend targets. Controlling expenses remains an ongoing priority, with a target expense-to-sales ratio of 16.2 per cent for fiscal 2003–04. We will continue to introduce supply chain initiatives, working with suppliers to improve product flow and replenishment. Expanding and automating our London distribution facility will certainly help increase efficiency. To help address declining margin rates, we will review our markup structure to ensure that we are recovering all costs associated with moving our product to market. We are also working with our suppliers on innovative marketing plans to add excitement to the spirits category and will promote more premium products and gifts, which should improve the LCBO's overall margin rate.

We know where we have to continue to improve in fiscal 2003–04 and beyond, and have the plans and people in place to achieve our strategic and business objectives.

Bob Peter
*President and Chief Operating Officer*
*Toronto, Ontario*
*August 2003*

# Corporate Governance

**Our mission: to be a responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service**

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. (Regulatory responsibility for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery – previously held by the LCBO – was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.)

To fulfill our responsibilities to the Government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties
- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business and the corporation's positive relationship and dealings with stakeholders.

As an operational enterprise of the provincial government, we are not required to disclose our corporate governance practices, as are companies listed on the Toronto Stock Exchange. We believe, however, that effective corporate governance and accountability are essential to fulfilling our mandate and have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## Mandate of the Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- submitting an annual financial plan to the Minister of Consumer and Business Services
- ensuring that the organization remains financially sound
- assessing and managing business risks
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through orders-in-council, on the recommendation of the Premier and Minister of Consumer and Business Services. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business operations, current strategies and issues, as well as visits to LCBO facilities. New Members also meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest; Board Members may not enter into arrangements with the LCBO for personal gain
- having adequate knowledge of the LCBO's business, how it is organized and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

## The strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans; every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see page 16.

## Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management
- reviews the scope of the responsibilities of the LCBO's Chair and CEO and Board Members and the limits of senior management responsibility and makes recommendations to Board Members accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the LCBO Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

### Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Board Members; gifts and entertainment; and human rights.

### Health and safety

The Board approves an annual health and safety policy and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues.

### Store Planning and Development Committee

This staff committee, which reports to the Board, reviews all real estate and leasing decisions and makes recommendations to the Board.

### Listings Appeals Committee

The LCBO Listings Appeals Committee reviews appeals of denials of listing applications and decisions as to products that are delisted from sale through the LCBO.

### Governance of the LCBO differs from private-sector corporations

In public companies, boards of directors usually perform a number of key responsibilities on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario Government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

### Accountable to government and the public

The LCBO is held accountable by the Government and people of Ontario in a number of ways, including:

- its Annual Report, tabled in the Provincial Legislature and available for all Ontarians to review, either in print or online at *www.lcbo.com*
- annual audits of LCBO financial statements by the Provincial Auditor, as well as value-for-money audits of specific LCBO programs, including store planning
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- statutory reporting requirements under the *Liquor Control Act* to the Minister of Consumer and Business Services and the Minister of Finance
- Memorandum of Understanding with the Minister of Consumer and Business Services setting out reporting requirements for the annual financial plan, capital plan and multi-year strategic plans
- compliance with Management Board's Agency Accountability Directives.

# Beyond the Numbers 2002–03

## Management Discussion and Analysis of Operations

Canadian securities regulations require public companies to include a discussion of operating results in their annual reports, along with annual financial statements. As a provincial government operational enterprise, LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

### Senior Management Team 2002–03

1. Jackie Bonic
   *VP, Store Development & Real Estate*
2. Alex Browning
   *Senior VP, Finance & Administration*
3. Tamara Burns
   *VP, Merchandising*
4. Nancy Cardinal
   *VP, Marketing Communications*
5. Bob Downey
   *Senior VP, Sales & Marketing*
6. Roy Ecker
   *Senior VP, Retail Operations*
7. Mary Fitzpatrick
   *Senior VP, General Counsel & Corp. Sec.*
8. Murray Kane
   *Senior VP, Human Resources*

*Continued page 11*

### HIGHLIGHTS

(value in $000s)

| | 2001–02 | 2002–03 |
|---|---|---|
| Dividend to government | $905,000 | $975,000 |
| Per cent increase | 6.5 | 7.7 |
| Net sales and other income | $2,939,563 | $3,119,240 |
| Per cent increase | 7.5 | 6.1 |
| Operating expenses | $489,633 | $525,959 |
| Per cent increase | 4.6 | 7.4 |
| Net income | $920,913 | $939,542 |
| Per cent increase | 5.1 | 2.0 |

## Dividend increases for ninth straight year

We transferred a record $975-million dividend to government in 2002–03, a $70-million increase over last year, our largest ever year-over-year increase in absolute dollars. This is the ninth straight year we've increased our dividend and our eighth straight record year.

The following table gives a 10-year history of the LCBO dividend paid to the province of Ontario.

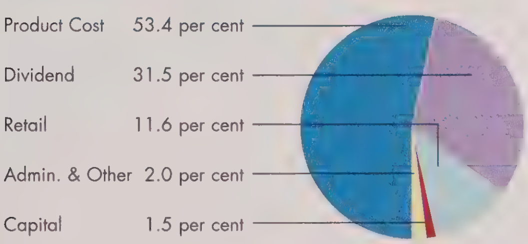
| DIVIDEND | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($000,000s) | $585 | $630 | $680 | $730 | $745 | $780 | $800 | $850 | $905 | $975 |

The dividend has risen steadily in the past decade. Since 1993–94, the dividend has grown by 66.7 per cent or $390 million.

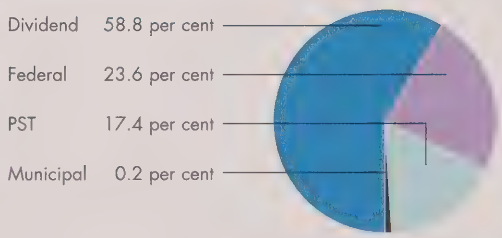
## Billion-dollar payout for fifth straight year

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $289 million in 2002–03. If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the fifth straight year, giving our owners – the Government of Ontario – a total of $1.264 billion. This is 7.1 per cent more than last year. LCBO also remitted $97.5 million to the federal government in GST and $2.8 million in property taxes to municipal governments in 2002–03.

### BREAKDOWN OF $1 IN NET SALES




### LCBO PAYMENTS TO GOVERNMENT




## LCBO sales growth remains strong

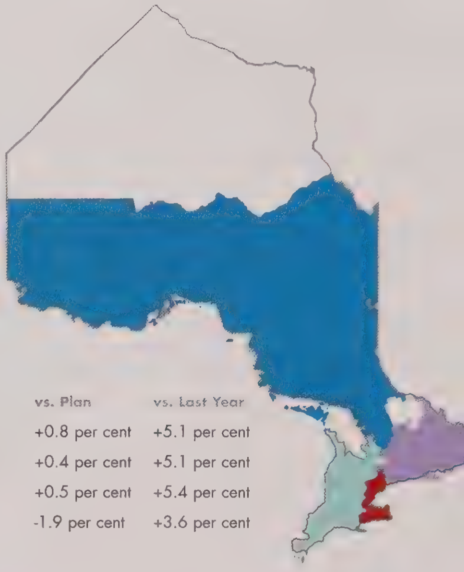
Despite a sagging U.S. economy, Ontario's strong economic performance underpinned LCBO's net sales growth of 6.1 per cent over fiscal 2001–02. LCBO sales rose by $177 million over last year, to $3.1 billion, surpassing the aggressive sales growth target of 5.1 per cent that was set at the end of last year.

The LCBO's sales have grown over the last five years by 35.6 per cent in volume and by 33.2 per cent in value. LCBO led all liquor jurisdictions in Canada in volume growth and only Quebec surpassed Ontario in terms of value growth. By comparison, the Société des alcools du Québec's sales volume grew by 31.4 per cent while dollar sales grew by 47.8 per cent.

Total retail sector sales in Canada grew 6.0 per cent between 2001–02 and 2002–03. According to Statistics Canada, Ontario underperformed the national average with retail sales growing by 5.5 per cent. LCBO was able to grow sales by 6.1 per cent, keeping pace with national retail sales growth and surpassing Ontario's average retail sales growth.

## Growth exceeds plan in three of four regions

Three of the four LCBO retail regions bettered the budgeted growth rates for net sales in fiscal 2002–03, the exception being the Northern Region. The map on the right shows how each region fared compared both to plan and the year before.



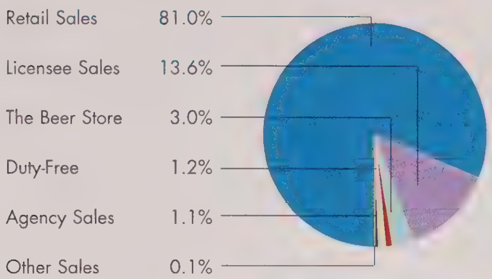
| | vs. Plan | vs. Last Year |
|---|---|---|
| Central Region | +0.8 per cent | +5.1 per cent |
| Western Region | +0.4 per cent | +5.1 per cent |
| Eastern Region | +0.5 per cent | +5.4 per cent |
| Northern Region | -1.9 per cent | +3.6 per cent |

## Retail sales continue to be strong

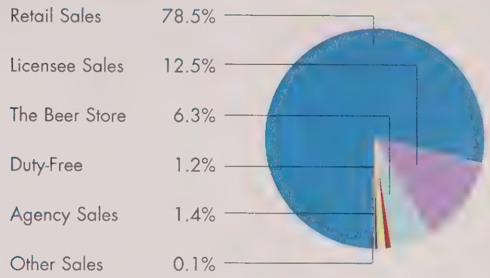
LCBO retail sales, which we define as sales to home consumers, grew by 5.0 per cent over last year and accounted for 78.5 per cent of the LCBO's total net sales, amounting to $2.43 billion. Last year, they grew by 7.7 per cent over the year before and, at $2.32 billion, accounted for 79.3 per cent of total net sales.

Sales to The Beer Store (TBS) increased by 22.0 per cent, due to continuing growth in the sale of imported beer. These sales now account for 6.4 per cent of total LCBO net sales, up from 5.5 per cent last year.

## BREAKDOWN OF LCBO SALES 1998–99




## BREAKDOWN OF LCBO SALES 2002–03




Licensee sales accounted for 12.5 per cent of total net sales in fiscal 2002–03, down from 12.8 per cent, while sales to duty-free operators accounted for 1.2 per cent, which was the same as last year. Sales to agency stores increased from 1.0 per cent of total sales to 1.4 per cent, due to a 50-store expansion in the network. *(For more information on the agency store program, see page 36.)*

Weakness in the tourism industry, resulting mainly from an economic downturn and political uncertainty in the United States, dampened sales through the licensee and duty-free channels. Sales to licensees were below plan by 6.1 per cent while duty-free sales fell short of plan by 0.6 per cent. Sales through these channels did, however, improve from last year when the events of September 11, 2001 led to declining sales. Compared to actual sales in 2001–02, sales to licensees were up 3.5 per cent and duty-free sales rose 6.7 per cent.

Since legislative changes were implemented in 1999, Ontario wineries' direct delivery sales of VQA products to licensees have grown quickly. In fiscal 2002–03, VQA direct delivery by Ontario wineries increased by 30.9 per cent, while LCBO domestic wine sales

9 Hugh Kelly
*Senior VP, Information Technology*

10 Bill Kennedy
*Executive Director, Corporate Communications*

11 Gerry Ker
*Executive Director, Corporate Policy*

12 Ian Martin
*Senior VP, Logistics*

13 Barry O'Brien
*Director, Corporate Affairs*

14 Dr. George Soleas
*VP, Quality Assurance*

15 Shelley Sutton
*Director, Strategic Planning*

16 Tom Wilson
*VP, VINTAGES*

to licensees fell by 10.7 per cent. In 2002–03, direct delivery of VQA products represented 13.9 per cent of the total volume of the licensee market for wine, compared to 12.0 per cent in 2001–02.

Combined, these wholesale sales represented 21.5 per cent of total LCBO net sales, up from 19.0 per cent five years ago.

### LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As at March 31, 2003, there were 1,628 outlets selling alcohol in Ontario.

In fiscal 2002–03, the LCBO opened 50 new agency stores in smaller communities throughout Ontario. The agency store program has greatly improved beverage alcohol service for residents and visitors in rural areas and smaller communities, while maintaining the LCBO's social responsibility standards. It also helps stimulate local retail traffic and revenue, increases employment for local residents and broadens the host community's business base while improving LCBO's revenues. The agency store network will be further expanded in the coming year. *(For more information on the program and its expansion, please see page 36.)*

Here is what the market looked like at March 31, 2003 (percentages have been rounded):

- 597 LCBO stores (36.7 per cent of all outlets)*
- 436 Beer Stores (26.8 per cent of all outlets)
- 384 Ontario winery retail stores (23.6 per cent of all outlets)
- 155 agency stores (9.5 per cent of all outlets)
- 39 on-site brewery stores (2.4 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 3 airport duty-free stores (0.2 per cent of all outlets).

* If you combine the LCBO's 597 stores and Ontario's 155 agency stores, the market share is approximately 46 per cent.

### Changes in market share[1]

The total Ontario beverage alcohol marketplace amounted to almost $8.0 billion in gross sales in 2002–03. The LCBO's market share by value increased from 44.6 per cent in 2001–02 to 45.5 per cent in 2002–03. Winery retail stores sales grew by 6.1 per cent and increased market share from 2.2 per cent in 2001–02 to 2.3 per cent in 2002–03. The Beer Store's market share also increased in 2002–03, rising from 32.3 per cent to 32.4 per cent.

### Other legal sales[1]

Other legal sales, such as cross-border and brew-pubs, declined by 5.9 per cent from fiscal 2001–02 and the market share for these channels declined from 14.9 per cent in 2001–02 to 13.7 per cent. This is due mainly to a decline in the number of brew-on-premise establishments which, after several years of strong growth, declined in market share from 11.0 per cent in 2001–02 to 9.9 per cent in 2002–03. The number of licensed U-brews and U-vints in the province declined by 5.7 per cent in 2002–03.

[1] Revisions to 2001–02 numbers have been made as new data became available.

### Illegal competition[1]

The estimated size of the illegal market in Ontario has been relatively stable in the past few years. The market share in this channel increased slightly from 6.0 per cent in 2001–02 to 6.1 per cent in 2002–03. This illicit channel is estimated to redirect revenues of $456 million, up from $432 million last year.

## The Income Statement

### Net income up by $18.6 million

Net income for fiscal 2002–03 was $940 million, almost $19 million higher than last year, representing a 2.0-per-cent increase.

The net-income-to-net-sales ratio was 30.3 per cent, just missing the 2002–03 target of 31.1 per cent and lower than last year's ratio of 31.5 per cent.

Our expense-to-net-sales ratio missed expectations. It was originally forecast at 16.5 per cent and came in at 16.7 per cent in fiscal 2002–03. More detail is provided in the section on productivity ratios.

Our net sales growth of 6.1 per cent was excellent, particularly in light of the economic slowdown this year. It surpassed the target of 5.1 per cent set at the end of last year.

### Gross margin up 3.8 per cent

Gross margin grew a healthy $52.7 million to $1.44 billion in fiscal 2002–03. This missed the planned target by 0.4 per cent but compared to last year, was higher by 3.8 per cent.

Gross margin as a percentage of net sales for 2002–03 was 46.6 per cent, below last year's 47.6 per cent, and slightly below the target of 47.2 per cent. The decline in the gross-margin-to-net-sales ratio reflects the continuing shift in the sales product mix from spirits towards beer, wine and coolers.

For every dollar of net sales, our gross margin return on spirits is $0.56. On wine, it is $0.49 and on beer $0.28. Beer and wine now represent 53 per cent of total net sales, up from 52 per cent last year and 48 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever-greater proportion of our sales dollars come from the sale of lower-margin product lines.

The 10.3-per-cent growth in the wholesale market also added to the lower gross-margin ratio, because of the discounts provided on these sales.

### Productivity ratios monitored

To track expenses and see where improvements are needed, LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary expenses-to-sales ratio means that staff are becoming more productive.

## Retail productivity

The LCBO has consistently improved its retail productivity ratios year over year. In fiscal 2002–03, we once again performed better than last year but were unable to meet the aggressive targets we set at the end of fiscal 2001–02.

LCBO's commitment to improving the store network and enhancing customer service led to significantly higher sales over last year. Unfortunately our expenses exceeded our targets and led to productivity levels slightly better than last year, but below plan.

**Store salaries to sales:** Store salaries were slightly over budget by 0.3 per cent; we missed the target of 7.0 per cent, ending at 7.3 per cent.

**Store expenses as a percentage of sales:** Higher controllable labour costs led to slightly higher store expenses and resulted in a ratio of 10.4 per cent, missing the target of 10.1 per cent.

**Store salary per unit sold:** Higher salary costs resulted in the ratio coming in $0.03 over target at $0.78.

**Store expenses per unit sold:** Came in at $1.11, above the target of $1.08.

**Unit sales per hour:** Came in at 31.3, missing the target of 34.0. This was better than last year, but still below expectations.

**Sales per customer:** At $28.51, consumers were spending more than last year's result of $28.10 but below the target of $28.78.

**Sales per square foot:** Up from last year's $1,752 to $1,755, but missing the target of $1,791.

### RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

| | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 |
|---|---|---|---|---|---|
| Store salaries to sales | 7.8% | 7.6% | 7.9% | 7.4% | 7.3% |
| Store expenses as percentage of sales | 10.6% | 10.5% | 11.0% | 10.4% | 10.4% |
| Store salaries per unit sold | $0.85 | $0.84 | $0.87 | $0.80 | $0.78 |
| Store expenses per unit sold | $1.16 | $1.17 | $1.22 | $1.13 | $1.11 |
| Unit sales per hour | 25.8 | 25.7 | 25.5 | 28.6 | 31.3 |
| Sales per customer | $26.19 | $27.19 | $27.86 | $28.10 | $28.51 |
| Sales per square foot | $1,546 | $1,674 | $1,693 | $1,752 | $1,755 |

Note: Unit sales per hour refers to the average number of units sold in LCBO stores per operating hour.

## Logistics productivity

The logistics side of the business did not achieve all its productivity goals this year, meeting three of seven targets. Higher than expected expenses, such as compensation, rent, utilities, breakage and outbound freight, led to this result.

**Warehouse salary cost per case:** This year's ratio came in at $0.83, surpassing the target of $0.84.

**Warehouse cost per case:** This ratio missed the target of $1.08, coming in at $1.10 per case.

**Logistics cases per hour:** Beat the target of 61, coming in at 66 cases per hour.

**Logistics cost per case handled:** Higher by $0.05 per case compared to last year and missed the target of $0.62 by a small margin, coming in at $0.64 per case handled.

**Freight expense per case:** Increased significantly compared to last year's value of $1.11 and missed the target of $1.20, coming in at $1.26 per case.

**Inbound freight as a percentage of sales:** Fuel costs remained high this year which led to this ratio coming in above the target of 1.9 per cent, as well as last year's 1.9 per cent, at 2.2 per cent.

**Outbound freight as a percentage of sales:** Met its target by coming in at 0.7 per cent.

## LOGISTICS – FINANCIAL AND OPERATING HIGHLIGHTS

| | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 |
|---|---|---|---|---|---|
| Warehouse salary cost per case | $0.75 | $0.75 | $0.76 | $0.77 | $0.83 |
| Warehouse cost per case | $0.95 | $0.98 | $0.95 | $1.00 | $1.10 |
| Logistics cases per hour | 62 | 62 | 64 | 64 | 66 |
| Logistics cost per case handled | $0.58 | $0.59 | $0.57 | $0.59 | $0.64 |
| Freight expense per case | $1.07 | $1.13 | $1.16 | $1.11 | $1.26 |
| Inbound freight as percentage of sales | 1.9% | 2.0% | 2.0% | 1.9% | 2.2% |
| Outbound freight as percentage of sales | 0.5% | 0.6 % | 0.6% | 0.6% | 0.7% |

Note: For certain logistics ratios, the prior years have been restated due to the reclassification of one of our facilities. For logistics cases per hour, the prior years have been restated, as warehouse hours now reflect all hours worked.

### Operating expenses on track

The administrative expense ratio remained unchanged from 2001–02, at 1.3 per cent. This matched the target for the fiscal year.

Operating expenses as a percentage of net sales remained relatively stable (16.6 per cent in 2001-02; 16.7 per cent in 2002–03). This missed the target of 16.5 per cent[2].

2 This ratio is as per our internal management reporting and thus will not match the ratio in the Financial table on page 44 of the "Financial Overview" section.

## Balance Sheet

### Liabilities up

Liabilities, consisting of accounts payable and accrued benefit obligations, rose from $248.1 million in 2001–02 to $299.5 million in 2002–03.

### Year-end inventory and turns both up

Year-end inventory was up from $226.3 million in 2001–02 to $247.5 million in 2002–03. This is due in large part to the impact of a much higher than anticipated inventory in transit from suppliers, which is only recognized at year end. Total inventory turns rose from 6.0 in 2001–02 to 7.5 in 2002–03, but missed the target of 8.8; closer control over inventory contributed to this improvement over last year.[3] Higher inventory turns result in more cash flow, which frees up funds to improve more stores and increase our dividend.

## Changes in our financial position

### Less cash on hand

LCBO's cash position decreased from $80.1 million in 2001–02 to $46.4 million at the end of 2002–03.

**CAPITAL EXPENDITURES** (values in $000s, numbers rounded)

| | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 |
|---|---|---|---|---|---|
| Retail | 17,730 | 23,112 | 39,984 | 31,458 | 46,570 |
| Information Technology | 17,834 | 24,895 | 7,375 | 14,259 | 12,758 |
| Logistics | 1,658 | 1,760 | 2,066 | 3,493 | 11,848 |
| Marketing Programs | 2,558 | 2,434 | 1,231 | 1,730 | 1,565 |
| Other Administrative Divisions | 1,179 | 1,463 | 2,409 | 1,347 | 1,265 |
| Systems Improvements | N/A | 808 | 2,624 | 3,448 | 1,056 |
| Total Capital Expenditures | 40,959 | 54,472 | 55,689 | 55,735 | 75,062 |

As part of our five-year strategic plan to make LCBO the *Source for Entertaining Ideas*, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards. This increased capital investment over the past five years was necessary because many of LCBO's stores did not meet these standards. Research shows that new and upgraded stores – better located and more appealing places to shop – increase both sales and customer satisfaction.

Fiscal 2002–03 saw a significant increase in logistics investment. This reflects the GTA Services Centre warehouse move from Toronto to Mississauga and the automation of the London warehouse. Information technology investment continues to be significant due to the Integrated Store Environment (ISE) project (which includes a new point-of-sale [POS] system and Sales Audit system), a new

3 Inventory turn numbers have been restated due to an internal reporting change.

Human Resources/Payroll system and an upgrade in our Oracle application. The investment in our information technology infrastructure reflects our commitment to improving operational efficiencies.

## Looking Ahead

In fiscal 2003–04 the successful identification and management of key issues in retail and logistics will result in a forecasted net sales increase of 6.9 per cent or $214 million to $3.3 billion.

As we enter the first year of a new five-year plan in 2003–04, we continue to look for and act upon opportunities for improvement, focusing on customer service. The LCBO will support frontline employees by providing training; by providing innovative marketing that captures and expresses the spirit of our new brand vision, *Discover the World*, which you can read more about on page 19; by continuing to improve store formats, locations and product selection; and by continuing to decrease unnecessary product handling through door-to-floor and other supply chain improvements, so employees can spend more time serving customers. Of equal importance will be warehouse and systems upgrades in Toronto, London and at our main Durham facility, as well as the expansion of the London warehouse so it can serve more stores in the west.

Divisional expenses are expected to rise by 3.8 per cent. This increase is being driven by a number of factors, including higher rent and realty and business taxes; training costs to improve customer service; higher salaries and benefits to handle planned sales increases and to attract and retain qualified employees; and increased spending on advertising and merchandising initiatives.

Volume sales are expected to increase by 6.3 per cent next year while the gross margin percentage is expected to continue its decline under the combined market pressures of stronger sales of lower-margin products and fixed markup rates, coming in at 45.7 per cent. This will drive net income down to 30.0 per cent of net sales as net income increases by 5.7 per cent from $940 million to $993 million[4].

Our product costs as a percentage of net sales are projected to rise from 53.4 per cent in 2002–03 to 54.3 per cent in 2003–04.

Our expense-to-net-sales ratio was originally forecast at 16.5 per cent, but came in slightly higher at 16.7 per cent in fiscal 2002–03. This ratio is forecast to come in at 16.2 per cent in 2003–04, as we aggressively control costs and implement additional efficiencies.

The LCBO is expected to decrease its capital expenditures in 2003–04 by $22.4 million, from $75.1 million to $52.7 million. Most of the decrease in capital project expenditure will be in Retail and IT. However, we will continue to open, expand and relocate stores where populations grow. And in other markets, the LCBO will do aesthetic upgrades. Over the next five years we plan to upgrade about 200 stores in total, spreading our investment over markets of all sizes, both urban and rural *(for more information, please see page 34)*. In 2003–04, we are also investing in the expansion of our London warehouse, which will nearly double in size and more than double its storage and throughput capacity.

Our dividend to the Government of Ontario should increase for the tenth consecutive year to more than $1 billion, an increase of at least $25 million or 2.6 per cent. Having achieved a $975-million dividend in fiscal 2002–03, we transferred $300 million more than originally forecast over the five-year plan from 1998–99 to 2002–03.

4 For fiscal 2003–04, there has been a change in the way Ontario beer fees are collected. Ontario beer fees were originally collected by the Alcohol and Gaming Commission of Ontario (AGCO), but this responsibility has been transferred to the LCBO. This change will increase our net income and decrease the cost of Ontario beer sold. The LCBO plan numbers do not take into account the $38 million we expect to gain from this change.

The LCBO's new brand vision, *Discover the World*, is based on research that shows customers want LCBO employees to demystify the products we sell and take some of the perceived risk out of their purchases.

# Discover the World

## Our new five-year strategic plan, which took effect April 1, 2003, will launch a new brand vision for the LCBO

By any definition, the LCBO's five-year plan that guided operations from 1998 to 2003 was a great success:

- We set new records for revenues and dividends every year.
- We transferred $4.3 billion to the government, $300 million more than forecast, to support social programs, services and capital projects.
- We continued to improve customer service, store environments, marketing programs, staff training, supply chain processes, productivity and operational efficiency.
- We consistently outperformed the Ontario retail market and other beverage alcohol markets.
- We added to our standing as a leader in social responsibility.

We also began building and integrating a brand vision. LCBO stores would be more than a place to buy beverage alcohol – they would be Ontario's *Source for Entertaining Ideas*, where customers would seek products and advice to help them entertain easily, adventurously and responsibly.

From 1998 to 2003, this vision took root in many LCBO stores, where we brought to life themes and concepts articulated in our popular consumer magazine, *Food & Drink*. It became a focal point for staff and helped redefine alcohol as part of a balanced lifestyle.

But as we raised awareness of and interest in our products and services, we also raised expectations that, because of capital and space constraints, could not be met to our satisfaction in every store, as a successful brand promise must do. So when we began developing a new five-year plan, our first step was to conduct extensive customer research, asking people what LCBO programs, products and services appealed to them, and what could make their shopping more informative and enjoyable.

We learned that customers want LCBO employees to demystify the products we sell and take some of the perceived risk out of their purchases. They want LCBO employees to engage and guide them on a journey of learning and discovery.

Based on these findings, the plan was built around a new brand vision: *Discover the World.*

This vision can be extended to every store in our network, because we offer a wide selection of products from near and far, and most staff already have the knowledge and ability to serve as "tour guides".

The LCBO will support frontline employees' efforts by:

- providing appropriate training
- providing more tastings, classes, notes and other materials to help customers expand their product knowledge
- showcasing products from Ontario and more than 60 countries worldwide
- continuing to improve store formats and locations
- reducing unnecessary product handling so employees can spend more time engaging customers.

We believe this plan – which the public will begin to see in stores in the fall of 2003 – will achieve the same success as our previous strategic plan, while meeting heightened expectations in all markets.

While there is much that is new, we consider it evolutionary, not revolutionary – the next logical step in our ongoing transformation.

The plan sets out these six objectives for the years 2003–08:

1. to increase customer satisfaction
2. to promote the responsible use of beverage alcohol
3. to maximize returns to the people of Ontario by generating a total of $5.14 billion in dividends over the next five years
4. to develop and improve collaborative relationships with suppliers
5. to promote the growth of Ontario wine sales
6. to increase employee satisfaction.

Because every employee has a role to play in the plan's success, an extensive rollout began in February 2003.

"Frontline employees are the ones who will bring this vision to life in stores, who will engage customers in this voyage of discovery," notes President and COO Bob Peter. "Without their active and enthusiastic participation, all we have are words on a page."

**Our mission:** to be a **responsible,** performance-driven, **innovative** and profitable retailer, **engaging** our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and **knowledgeable** service.


Echo Boomers, the children of Baby Boomers, spend more per annum in our stores than any other demographic group. Some 750,000 are expected to come of legal drinking age over the course of our 2003–08 five-year strategic plan.

# Product Trends 2002–03

## Spirits

Up 1.4 % value
Up 0.7 % volume

## Wines

Up 6.4% value
Up 3.6% volume

## VQA (Ontario)

Up 14.2 % v
Up 12.2 % vo

eer
Up 12.1 % value
Up 8.7 % volume

Coolers
Up 19.2 % value
Up 17.9 % volume

VINTAGES
Up 6.4 % valu
Up 10.3 % volum


Category totals provided here do not include sales through VINTAGES and the LCBO Private Stock Program, and therefore may not match totals found in the Financial Overview section of this Annual Report.

# Wines

**Mission: to provide our customers with an exceptional selection of quality wines at affordable prices; to educate customers so they can serve our products with confidence; to help customers entertain in the context of a healthy everyday lifestyle; and to be one of the first international markets where innovative new products are launched.**

Customer enthusiasm for red wines, and a willingness to move up to premium price bands, led the Wines Category to another strong year. Dollar sales grew by 6.4 per cent to $819 million, 3.0 per cent above plan. Litre sales grew by 3.6 per cent to 83 million litres, 0.6 per cent above plan.

Director Kate Mallett-Thomas cites three main factors:

- tremendous growth in red wine sales
- increased sales in premium price bands
- strong sales of wines from top producers such as Australia, Italy and Canada (primarily Ontario), which together enjoyed an 11-per-cent dollar increase.

Red wine sales grew by 11.0 per cent in dollars and 8.0 per cent in litres. By contrast, white wines grew by 2.7 per cent in dollars and 0.8 per cent in litres. In fact, fiscal 2002–03 marked the first time ever that the LCBO sold more red wine by volume than white: 48 per cent of table wines by volume were red; 47 per cent were white.

Premium wines continued to grow faster than lower-priced brands. Wines priced between $10 and $15 rose 16.2 per cent in litres over last year; wines between $15 and $20 rose 6.1 per cent; wines between $20 and $25 rose 9.7 per cent; and wines between $25 and $35 rose 7.5 per cent. Sales of wines under $10, which make up 85 per cent of the category's portfolio in litres, grew by a healthy 1.9 per cent, showing that customers are finding products to suit every taste and budget.

In terms of country/region of origin, Australia continued to set the pace, with sales rising by 32 per cent, topping the 29-per-cent growth averaged over the previous five years; market share grew to 14 per cent. The success of Australian wines, which boosted it past the U.S. into fourth place in terms of market share, can be attributed to consumer preferences for consumer-friendly red wines that offer good value for the money; strong strategic planning and collaboration within the Australian industry; and customer loyalty to top brand "families" such as Wolf Blass, Lindemans and Rosemount. Australian white wines also did well in fiscal 2002–03; their Chardonnays, for example, which represent almost 70 per cent of Australian white wines, grew by 31.1 per cent.

The largest share of the Wines Category portfolio, which does not include VINTAGES products, is held by Canada at 25 per cent. In fiscal 2002–03, sales of Canadian wines (most from Ontario) grew by 3.9 per cent in value. *(For more information on Ontario wines, and the role LCBO plays in promoting them, please see page 32.)*

The next largest producer, France, saw a 0.2-per-cent decline in sales growth, due largely to the poor performance of its blended table wines, and now holds a 19-per-cent market share.

Sales of wines from Italy continued their steady growth of recent years, increasing by 9.7 per cent, and now hold a 17-per-cent market share. Food-friendly varietals, including Pinot Grigio and Valpolicella, are key drivers of growth.

In fifth place behind Australia was the U.S. Its wine sales declined by 0.8 per cent and it now commands 9.0 per cent of the market. Over recent years, the unfavourable exchange rate between the Canadian and American dollars pushed up the price of many California wines, prompting many customers to seek better value offerings from Australia and Chile.

Other top producers were:

- Chile (5.0-per-cent growth/5.0-per-cent market share)
- Spain (6.7-per-cent growth/4.5-per-cent market share)
- Germany (0.7-per-cent growth/2.4-per-cent market share)
- Portugal (1.8-per-cent decline/1.9-per-cent market share)
- Others, including South Africa, New Zealand, Argentina, Greece, Hungary and Bulgaria: combined 3.0-per-cent growth rate/combined 6.8-per-cent market share.

## Other Trends

- Imported fortified wines declined by 3.9 per cent in litres and 0.4 per cent in dollars.
- Imported sparkling wines grew by 1.9 per cent in litres and 6.6 per cent in dollars.
- Domestic sparkling and fortified wines declined by 7.6 per cent in litres and 4.1 per cent in dollars.
- Flavoured wine drinks (made with wine, carbonated water and fruit flavouring) rose 18.4 per cent to nearly $15 million.

## Looking Ahead

Plans for 2003–04 include:

- new marketing strategies and programs, grounded in research, designed to encourage customers to browse and try new products
- continued partnership with the Ontario wine industry to promote its products in our stores
- training initiatives that help demystify wine and take the perceived risk out of shopping for new products
- improved selection of gift, niche and ethnic products
- new product forecasting and replenishment procedures
- promotions and other initiatives designed to boost sales of wines from the top-producing countries and regions.

# Spirits

## Mission: to showcase the mixability, diversity and vitality of spirits, and make spirits the must-serve drink.

In July 2002, the LCBO invited representatives of every major distiller in Ontario to discuss issues of mutual interest and explore new opportunities to market and sell spirits.

According to Director Shari Mogk-Edwards, high atop their list of concerns were declining sales of Canadian whisky, which account for some 10 per cent of LCBO revenues. Sales of Canadian whisky decreased by 1.2 per cent in fiscal 2002–03, and the segment has lost 2.8 per cent in market share over the past five years, during which time no other segment lost more than 0.6 per cent.

Other topics included:

- how to make spirits displays more appealing to customers, especially "Echo Boomers" and women
- how to improve marketing and promotional initiatives
- how to leverage research to better understand customers' shopping patterns and purchase decisions
- how additional training of LCBO retail staff could further enhance their ability to inform customers about spirits
- how to maximize inventory flow to ensure stores have the products customers want, when they want them.

Nine working groups have since been developing action plans and initiatives, some of which are being tested in LCBO stores. One result was a month-long spirits promotion called *Shake It Up*, designed to help consumers learn more about appealing shaker cocktails.

Also in development are a five-year strategic plan to help the LCBO and suppliers maximize growth potential; and a joint performance scorecard to assess their progress against the plan's goals and objectives.

### Market share declining

As consumer tastes shift toward beer and coolers, the market share of spirits declines accordingly. In 1992-93, for example, spirits accounted for 58.5 per cent of LCBO net sales; in 2002–03, just 42 per cent. This is a cause of concern, as the margin per unit of spirits sold is considerably higher than that of beer, coolers or wine.

This is not to suggest the category is in decline; its sales have increased for seven straight years. But its rate of growth in fiscal 2002–03 (1.4 per cent) did not match those of beer (12.1 per cent), wine (6.4 per cent) or coolers (19.2 per cent).

Segments that did well in fiscal 2002–03 include vodka, especially flavoured products; Irish and American whiskey; brandy and Cognac; liqueurs; tequila; and gift packs.

The highest rates of growth were for premium and deluxe products in higher price bands. These grew by 6.3 per cent ($35-$49.95), 9.5 per cent ($50-$74.95), 8.5 per cent ($75-$99.95) and 8.8 per cent ($100 and up). By contrast, standard products priced between $20.00 and $34.95 declined by 4.5 per cent.

Imported spirits fared better than domestic products, growing in volume by 2.4 per cent and value by 3.1 per cent (excluding coolers). Domestic spirits declined by 1.0 per cent in volume and 0.3 per cent in value (also excluding coolers).

## Looking Ahead

The Spirits Category's goals for 2003–04 are:

- to continue to work with suppliers to develop initiatives that maximize growth
- to continue to market premium and deluxe products with higher profit margins, while providing a wide range of standard products
- to educate consumers about spirits and encourage them to try new products
- to bring more new products to market (45 were introduced in fiscal 2002–03)
- to increase spirits' holiday giftpack sales by 10 per cent over last year, to $15 million, and grow year-round gifting opportunities
- to improve inventory turns for domestic spirits by 12 per cent; for imported products by 11 per cent; and duty-free products by 6.5 per cent
- to grow duty-free sales, which account for about 3 per cent of the category's overall sales, from $35 million to $38 million
- to develop more incremental sales, since 66 per cent of consumers make unplanned purchases.

# Beers & Special Markets

**Mission: to be a performance-driven, profitable business unit, fulfilling the diverse needs of our customers through easy-to-shop layouts, exciting promotions, knowledgeable staff, world-renowned premium beers and Party Zone products.**

In the past five years, sales in Beers & Special Markets have precisely doubled: from $392 million in 1997–98 to $784 million in 2002–03. This year, the category's 12.4 per cent growth rate more than doubled the corporate rate of 6.1 per cent.

According to Director Randi Landy, the category has succeeded by continuously bringing intriguing new premium beers, both domestic and international, to the Ontario market; and by capitalizing on consumer interest in spirit coolers. (Beers and spirit coolers accounted for 93 per cent of category sales in fiscal 2002–03, with the rest coming from wine and beer coolers, cocktails-to-go, saké, ciders, kosher products and accessories.)

Other factors that contributed to sales growth in fiscal 2002–03 include:

- fine weather throughout the spring and summer of 2002
- new beer and "Party Zones" in selected stores that group beers, coolers and other products that appeal to outgoing and active customers
- increased refrigeration and space for beer and Party Zone products
- training materials, including an award-winning video, to help retail staff better serve their customers
- an improved selection of holiday gift items, sales of which rose 29 per cent to $2.1 million.

Here is a look at how segments within the category fared in fiscal 2002–03:

**Imported non-U.S. beer:** the largest contributor to sales, with 43.2 per cent of the beer category, and the fastest growing segment, with sales up 19.0 per cent over the year before. Just over 150 non-U.S. beers from 37 countries were offered last year, led by such dominant brands as Corona and Heineken. Beers from Belgium, Mexico and Denmark enjoyed the greatest growth in fiscal 2002–03.

**Ontario beers:** grew by 6.6 per cent in fiscal 2002–03, with a 40.2-per-cent share of the beer category. This segment includes popular brands from major producers such as Labatt and Molson, as well as craft beers from Ontario's many micro-breweries.

**U.S. beers:** grew by 4.3 per cent, despite the fact that the popular Busch brand began being produced in Ontario and is therefore considered domestic.

**Out-of-province beer:** grew by 17.0 per cent this fiscal year, largely driven by Moosehead and Alexander Keith's IPA.

In general, most best-selling beers, whether imported or domestic, were lagers. Even the ales that are doing well, like Keith's and Sleeman's, are made in a lighter, more easy-drinking style.

**Spirit coolers:** grew 18.6 per cent over the year before. This segment has enjoyed enviable growth since 1997–98, led by citrus-flavoured vodka-based drinks like Mike's Hard Lemonade and, more recently, Smirnoff Ice. Suppliers continue to innovate, and in fiscal 2002–03 introduced lighter, less sweet brands such as Pur Source from Labatt.

**Wine and beer coolers:** wine cooler sales declined by 19.8 per cent over the past year, due to customer preferences for spirit coolers. Sales of beer coolers through LCBO stores declined by 63.3 per cent.

**Cocktails to go:** sales of pre-mixed cocktails increased by 8.3 per cent, and now account for 3.9 per cent of category sales.

**Saké:** sales grew by 17.2 per cent to $2.4 million, due in part to the increasing popularity of Asian foods.

**Ciders:** continued to decline, down 6.1 per cent from the year before.

**Kosher:** showed a decline of 18.9 per cent mainly because Passover, one of the largest buying occasions, fell outside the LCBO's fiscal year.

**Accessories:** declined by 7.3 per cent as the LCBO opted to no longer sell certain lifestyle items, and now offers only gift packaging and beverage-alcohol related accessories. Accessories now account for less than one per cent of category sales.

## Looking Ahead

Beers & Special Markets plans to grow its business by another 12.2 per cent in fiscal 2003–04, to $880 million. Margin dollars are expected to improve by 9.4 per cent to $273 million.

It will do this by:

- engaging more customers aged 20-29, the highest-spending age group among our customers
- continuing to improve its selection of premium domestic and imported beers
- working with key vendors to further improve the flow of goods and reduce inventory costs
- continuing to train employees so they can help more customers discover exciting new products to try
- providing more informative product notes and displays
- testing new merchandising concepts and fixtures – like walk-in cold rooms in non-combination stores
- cross-merchandising beer with complementary products.

# VINTAGES

## Mission: to be the international leader in the buying, marketing and retailing of fine wines and premium spirits.

VINTAGES, the LCBO's fine wine and premium spirits division, searches the world for products that are unique and of exceptional value, providing customers with an ever-changing assortment of the world's best. This year VINTAGES brought more than 3,100 products to market through retail releases, direct marketing programs and special events.

VINTAGES' sales grew by 6.4 per cent in fiscal 2002–03. VP Tom Wilson attributes this lower than usual sales growth to discounting that occurred in 2002 to reduce excess inventory. Over the next four years, Wilson projects VINTAGES' sales to grow by 15 per cent a year.

While VINTAGES' portfolio includes red, white and rosé table wines, Icewines, sparkling and fortified wines, spirits and liqueurs, it is primarily a red wine business.

Of its $155 million in sales last year, $97 million came from red wine, almost 90 per cent of which came from four countries (France, Italy, Australia and the U.S.).

Here's what other segments contributed:

- **White wine,** mainly from France, Canada, the U.S., Italy and New Zealand, accounted for $37 million
- **Spirits and liqueurs,** mostly single malt and blended Scotch whiskies, accounted for $7 million
- **Sparkling wine,** mostly French Champagne, accounted for $5 million
- **Fortified & Specialty Wine,** mostly Port, accounted for $4 million
- **Rosé,** mainly from France and Canada, accounted for $800,000.

Many VINTAGES products are rare finds, often made in limited quantities. While VINTAGES obtains the largest possible allocations of such products, it faces challenges in satisfying all customers who are interested in purchasing them.

In May 2002, VINTAGES began releasing products twice a month, rather than once, to improve product flow and on-shelf presentation; and to create incremental sales opportunities by encouraging customers to visit stores more often.

Monthly releases feature up to 175 new products and often include "thematic releases" highlighting a particular region, sub-region, producer or varietal. These account for 85 per cent of VINTAGES' sales.

VINTAGES also makes products available through the following programs:

***Classics Catalogue*:** a direct marketing program that offers more than 1,000 new and unique products annually. Published three times a year, the catalogue now accounts for $15 million a year, roughly 10 per cent of VINTAGES' sales.

**Futures/Pre-arrivals:** futures give customers the opportunity to buy fine wines before they are bottled, usually at a significant discount. Pre-arrivals allow customers to buy products before they are widely commercialized.

**Cellar Direct:** encourages customers to collect and cellar wine. Each month a new product is made available in lots of three. Two products a month will be offered beginning in September 2003.

**VINTAGES Essentials:** a core group of products that are continuously available in stores. These proven favourites accounted for $30 million in sales in fiscal 2002–03, and are growing by 30 per cent a year.

**Events:** range from small winemakers' dinners to large tastings for 500 people. Our "taste and buy" *Classics Catalogue* events throughout the province have become extremely popular – customers taste a selection of products and have the opportunity to buy on-site.

**Auction:** In November 2002, VINTAGES staged Ontario's first commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. The event generated $2.3 million in sales, exceeding expectations, and was enthusiastically received by participants. Another auction is planned for November 2003.

**Web-based Initiatives:** these include a Web site (*www.vintages.com*) where customers can find information on products and services; V-mail, a bi-monthly e-mail bulletin that updates subscribers on product releases and other news; and Virtual VINTAGES, a partnership with suppliers that allows customers to buy products directly from our suppliers' inventory.

**Wines of the Month:** highlights two featured products that offer exceptional value.

## Looking Ahead

Plans for 2003–04 include:

- continue to enhance VINTAGES' product assortment through new or expanded programs such as In-store Discovery; VQA Discovery; Virtual VINTAGES; futures and pre-arrivals; and a revitalized *Classics Catalogue*
- continue to promote and demystify VINTAGES, especially for women and younger consumers
- provide more tasting opportunities to educate customers and take some of the perceived risk out of purchases
- improve business efficiencies and customer service by implementing new systems to support our programs
- collaborate with suppliers on assortment and promotion planning
- continue to implement programs to increase awareness and support of VQA products
- improve service, product availability and ordering processes for licensees.

# Wines of Ontario

## Sales of Ontario wines, especially VQA products, increased in both volume and value

A strategic partnership between the LCBO, the Ontario wine industry and the government of Ontario helped lift sales of Ontario wines in fiscal 2002–03, especially of products that bear the Vintners Quality Alliance (VQA) label.

The goals of the partnership are to build Ontario wines' market share in litres to 50 per cent over the next five years, including sales through winery retail stores and direct delivery to licensees, and support the industry's efforts to create a world-class brand.

As it developed its new five-year strategic plan, which took effect April 1, 2003, the LCBO aligned wherever feasible its goals and objectives with those of the industry's own five-year sales and marketing plan.

The results in fiscal 2002–03 were generally strong as sales of Ontario table wines, especially VQA wines, increased in both volume and value.

Here are some of the programs that contributed to increased sales in fiscal 2002–03.

### WOW Leaders

Some 300 employees in larger LCBO stores have been trained as WOW Leaders, whose mandate is to help educate customers about the World of Ontario Wines (WOW) and to act as a resource to their colleagues. Chosen for their customer service skills and enthusiasm for Ontario wines, WOW Leaders receive extensive information and support from LCBO category managers and the industry, including tasting notes, a WOW newsletter, a guide to Ontario wineries and tastings and presentations by local winemakers.

### Craft Winery Selection Program

This program helps smaller wineries establish their brands in some 60 LCBO stores with strong VQA sales. Sales of craft winery selections passed the $1-million mark during the first year of the program. Products that prove successful in their first year may "graduate" to regular Wines Category merchandising, making way for new products to enter the program.

### Ontario Superstars

Each month, two VQA wines are promoted as the Wines Category's picks, to help customers choose Ontario wines with greater confidence. These "Ontario Superstars" are displayed prominently in stores and advertised in *Food & Drink* magazine. In the first four sales periods since its launch, featured brands sold 10,936 cases, compared to 6,737 cases last year – an increase of 62 per cent.

### Increased Shelf Space/Presence in Stores

In February 2003, the government and the LCBO announced that the equivalent of 1.1 kilometres of shelf space for Ontario wines would be added in our stores. That's the equivalent of nearly 100 bottles for every LCBO store, though the amount varies from store to store, with newer, larger outlets offering more. For example, new stores in Toronto, Newmarket and St. Catharines offer all 378 Ontario wines regularly available through the LCBO, including 140 VQA wines; the store in St. Catharines store also offers tutored tastings and cooking demonstrations that showcase Niagara winemakers and chefs.

### Program Support by Winery Size

Recognizing that Ontario wineries range greatly in size, and require varying degrees of support in the marketplace, the LCBO is weighing different options for wineries to participate in LCBO programs and promotions. This includes ways of entering the system, the need for new brand development, merchandising strategies and store distribution plans.

### Reinventing the Ontario Wines Section

We are pilot-testing merchandising strategies that have proved successful in other liquor jurisdictions to see whether they might improve sales and market share of Ontario wines.

Right: the new Summerhill flagship store in Toronto offers all 378 Ontario wines regularly available through the LCBO, including 140 VQA wines, as do several other LCBO stores opened in fiscal 2002–03.

**LCBO ONTARIO WINE SALES 2002–03**

| | Year over Year Growth in Litres | Year over Year Growth in Dollars |
|---|---|---|
| Ontario Non-VQA | 2.2% | 2.8% |
| Ontario VQA | 12.6% | 14.9% |
| **Total Ontario Table Wines** | 4.0% | 5.7% |
| Ontario Other | -7.4% | -4.0% |
| **Grand Total Ontario** | 2.1% | 4.1% |

Note: Does not include sales through VINTAGES. Ontario Other includes sparkling wines, fortified wines, dessert wines and flavoured wine drinks, some of which are VQA.

# Upgrading the Store Network

## From Summerhill to Stouffville, improvements to the LCBO store network increase customer satisfaction and the return on our capital investment

On February 4, 2003, the LCBO's newest flagship store opened in a lovingly restored beaux-arts building on Yonge Street at Summerhill, which once housed the North Toronto Train Station.

Everyone who attended – customers, suppliers, government and industry officials, local historians – marvelled at the outstanding architectural features that were now revealed after being hidden for years by drywall and false ceilings.

They approved of how the heritage aspects of the building had been preserved by the developer, Equifund Corporation, as the site was converted to a state-of-the-art retail environment.

They browsed through nearly 5,000 products in all, including hundreds of fine Ontario wines and nearly 2,000 premium wines and spirits in an inviting VINTAGES section.

With 21,000 sq. ft. of selling space, and 31,000 sq. ft. in all, Store 10 – known simply as Summerhill – is Canada's largest liquor store.

Located in the heart of Rosedale, one of Toronto's – indeed Canada's – most affluent neighbourhoods, the store was created to serve some of the LCBO's most knowledgeable customers.

The staff of 80, which includes eight product consultants, received extensive training to help them provide compelling and responsible service to customers with high expectations.

The work that went into Summerhill was so extensive, and its profile so high, it's easy to forget that it was just one project in what was likely the busiest year ever for the LCBO's store development team. LCBO design co-ordinators, project managers, real estate specialists and others worked intensely throughout the year to build, renovate and refurbish dozens of stores in markets of all sizes across the province.


Experience shows that improved shopping environments – bigger, brighter and better located – not only increase customer satisfaction; many experience sales lifts of up to 30 per cent, with little or no cannibalization from other LCBO stores, provide a solid return on LCBO's capital investment and contribute to record dividend transfers.

In fiscal 2002–03, our investment in our retail stores was approximately $43 million, including maintenance and repairs:

- Seventeen new and relocated stores opened in Alliston, Collingwood, Markham, Mississauga, Newmarket, Ottawa-Nepean, Richmond Hill, St. Catharines, Stouffville and Toronto.
- Another 41 stores, including an older flagship store on Queens Quay in downtown Toronto, received cosmetic makeovers to bring colours, lighting and shelving up to current corporate standards.
- In smaller communities like Coe Hill, Gooderham, Lafontaine, Lion's Head, Port McNichol, Verner and Warsaw, aging trailer stores were replaced by permanent buildings that significantly expanded their shopping area and brand selection.

In all, some 150 of nearly 600 stores were upgraded in the past five years. Many were older stores that dated back to the era when liquor stores were purposely located on back streets. Backed by extensive market analysis, we now locate our stores on main roads, at busy intersections and in power centres where other leading retailers are found. Our stores are visible and accessible, with as much parking as we can offer, and interior layouts are designed to make shopping enjoyable, informative and convenient.

Over the next five years, our strategic plan calls for us to continue upgrading the store network. We'll open, expand and relocate stores in areas where populations are growing. We'll continue to do cosmetic upgrades throughout the province, improving lighting, layout and fixtures in a cost-effective manner, to extend our capital investment to as many stores as possible.

For fiscal 2003–04, renovation, relocation and expansion projects have been planned for Bells Corners, Brampton, Cambridge, Cookstown, Kitchener, London, Markham, Mississauga, Oakville, Oshawa, Toronto, Val Caron, Whitby and Woodbridge.

Between now and the end of 2008, we will spend $140 million to upgrade more than 200 stores, from flagships to mini-stores, looking at each market and each business case to ensure our investments pay dividends as they have in the past.

Top: staff members celebrate the reopening of our expanded store in Newmarket
Left: the new Summerhill flagship store, Toronto

# Agency Store Expansion

## This successful private-public partnership is making beverage alcohol shopping more convenient for residents, bringing additional revenue to smaller communities and increasing their overall business base

Since 1962, privately owned agency stores have provided beverage alcohol service to Ontario communities too small to support an LCBO or Beer Store outlet. Traditionally located in Northern Ontario, agency stores began opening in Southern Ontario in the 1990s, as this private-public partnership proved to be a safe, reliable and cost-effective way to deliver service to small communities.

In fiscal 2002–03, the network expanded by almost 50 per cent, from 105 stores to 155. Its sales increased accordingly, from $30 million to just over $42 million, about 1.5 per cent of total LCBO net sales.

The expansion is intended to make beverage alcohol shopping more convenient for residents, bring additional revenue to communities and increase their overall business base by giving rural consumers another reason to shop with local retailers.

LCBO stores that supply agencies also gain a significant wholesale client.

Agency store applicants must have an existing retail business in the community and commit to operating within established LCBO guidelines. The LCBO selects host operators through a public tender process. Potential hosts are assessed against a variety of criteria and selected based on a weighted ratings system designed to ensure the LCBO gets the best possible agent in each community.

Applications are reviewed by a committee that includes LCBO district managers and Head Office staff from Corporate Policy, Social Responsibility and Retail Planning. Successful applicants sign an agreement for up to five years, after which a new competition opens if it is recommended to continue to service the area with an agency store. In keeping with the LCBO's commitment to social responsibility, the program favours retail businesses that are less likely to attract minors. All staff who sell beverage alcohol must complete the same responsible server training as all LCBO retail employees.

LCBO store and district managers guide operators in setting up their product portfolios and ordering stock. With the expansion, many operators also received a fixtures package to give their beverage alcohol section a look and feel that is consistent with current LCBO retail standards.

Some agency stores carry as few as 70 brands but most carry around 150. The Beer Store supplies operators with beer produced in Ontario.

The program is expected to expand by another 66 stores in fiscal 2003–04.


Agency stores like this one in Craighurst, make beverage alcohol shopping more convenient for residents and visitors in communities too small to support an LCBO store or Beer Store.

# Supply Chain Improvements

## For the LCBO, its suppliers, customers and stakeholders, the benefits of an improving supply chain are many

The multi-stage process that brings products from suppliers to retail stores is commonly referred to as the supply chain. The benefits of an improving supply chain are many:

- Frontline employees spend less time handling stock and more time serving customers, thus improving customer service, satisfaction and sales.
- We reduce costly excess inventory, which frees up funds that can be used to increase our dividend and to upgrade stores.
- We work more closely with suppliers to improve customer service, efficiency and profitability.
- Stores improve their assortments and product flow by combining a core of fast-moving, top-selling brands with products of interest to local tastes.

The LCBO worked on a number of fronts to improve its supply chain in fiscal 2002–03.

### Store Service Project

We continued the rollout of a Store Service project, in which stores adopt new practices to improve supply chain processes, minimize unnecessary product handling and make product assortments more dynamic. To date, sales in supply chain stores have increased on average by two per cent over the corporate trend. More than 70 stores joined the project in 2002–03.

### Collaborative Planning

In September 2002, the LCBO launched a formal planning process to more closely align our demand for products with suppliers' production schedules. The process was first tested with six vendors of various sizes and has since been expanded to 35. The three stages of the project are:

- **Promotional Planning,** in which LCBO and suppliers lay out promotional plans over an 18-month period, to help us better plan inventory and materials, allocate resources and identify opportunities to build sales, profits and respective brand images
- **Collaborative Planning, Forecasting and Replenishment,** designed to increase the accuracy of demand forecasts and replenishment plans
- **Joint Performance Scorecard,** to track the performance of the LCBO and vendors.

## Information Sharing Program

Online reports help supplier agents track merchandise through the LCBO distribution network, so they can identify and resolve problems more quickly. First launched in early 2002, the program was expanded in fiscal 2002–03 to include 120 agents.

## Localized Assortments

A key supply chain goal is to introduce a localized assortment into stores, to improve service and product flow. A component of the localized assortment is a "core" of products of proven interest to customers which they can find consistently and readily across the network. The core assortment is complemented by products that appeal to local customer preferences. Choices are based on demographic research, sales histories and the store staff's understanding of their clientele. In fiscal 2002–03, we completed localized assortments for nearly 100 stores.

## Seasonal Inventory Strategy

LCBO sales generally experience predictable spikes at Christmas, Easter and, in resort areas, on summer long weekends. For Christmas 2002, we adopted a new approach to better manage the volume required to service stores, and found that stores were able to keep more products in stock, even with lower inventory levels than in previous years.

## Logistics Network

The LCBO has five warehouses to service more than 1,000 stores – some 600 of its own and more than 400 Beer Stores. As LCBO sales have climbed from $2 billion to $3 billion a year, and the product mix has shifted from spirits and wine towards beer and coolers, which take up more space, our warehouses have come under increasing pressure. In fiscal 2002–03, warehouses in Toronto and London were upgraded and automated to increase throughput capacity. Plans were developed to expand the London facility so it can more than double its storage capacity and serve many more stores than at present. Improvements also began at the highly automated Durham facility east of Toronto, including software upgrades to improve product sortation and case tracking.

## Web-based Ordering

In May 2002, LCBO introduced Web-based ordering to all stores and trained staff in its use. The program was designed to help staff reduce excess inventory while keeping shelves well-stocked. Category Management staff at Head Office also received training to help them forecast and replenish stock in LCBO warehouses with greater accuracy and efficiency.

# Social Responsibility

**As a responsible and caring retailer, we work on our own, and in partnership with other organizations, to make a difference in every community we serve**

There's a Burlington man who doesn't shop at the LCBO any more – and we couldn't be happier.

He had shopped at our Fairview Street store for years until Assistant Manager Milan Zrinscak refused to serve him one day because he appeared intoxicated.

The man recently returned after a prolonged absence to thank Zrinscak. He is now a member of Alcoholics Anonymous, he explained, in part because of what happened that day.

This outcome may seem exceptional, but the circumstances are not. Each year, LCBO employees challenge more than a million people in our stores, and refuse to serve tens of thousands, because they appear underage or intoxicated.

As a responsible and caring retailer, LCBO also creates and distributes materials on responsible hosting and personal consumption; advertises against impaired driving; raises funds for good causes; and conducts its business responsibly. We work on our own, and in partnership with other organizations, to make a difference in every community we serve.


Here are some initiatives we undertook in fiscal 2002–03 in these areas.

### Challenge and Refusal

- LCBO employees challenged 1.1 million customers who appeared underage or intoxicated, or were believed to be buying alcohol for minors or intoxicated people.
- Nearly 70,000 people were refused service – about two-thirds of whom appeared underage and could not provide valid ID.
- We issued 4,394 tamper-resistant photo ID cards in fiscal 2002–03. Some 24,000 BYID cards have been issued since 1996.

### Promoting responsible consumption

- LCBO published and distributed more than half a million copies of *HOST,* a guidebook designed to help customers entertain safely and responsibly. *HOST* provided responsible hosting and party planning information, facts about alcohol consumption and liability, non-alcoholic "mocktail" recipes and much more. Customized versions were created for six other Canadian liquor jurisdictions.

- We promoted prom safety, publishing tips for students and their parents, and a poster reminding young people they don't need to drink to have fun (page 40). The poster was sent to high schools across Ontario and was displayed in all LCBO stores during prom season. Tips for students and parents were available in stores, on the LCBO Web site (*www.lcbo.com*) and via our toll-free Infoline (1-800-ONT-LCBO).
- The LCBO and the Ottawa Senators collaborated on events to promote social responsibility. Highlights included a poster and public service announcements against drinking and driving, featuring Senators players and aired in the Corel Centre.
- We partnered with the Ontario Association of Chiefs of Police to raise awareness of the RIDE program, and with the Ontario Community Council on Impaired Driving to promote strategies against impaired driving.
- We helped the Ministry of Transportation inform the public about its Ignition Interlock Program.
- We also supported student-led initiatives against impaired driving.

## Advertising

- A new TV commercial, created in partnership with MADD Canada, encouraged people to stop drinking and driving – any way they can. The commercial showed a party host taking car keys away from a guest intent on driving after drinking. When the guest protests, the host drops the keys down his pants and dares the guest to retrieve them.
- Five ads created for *Food & Drink* featured LCBO employees who embody our commitment to quality, charity, community, customer service and social responsibility.
- All stores received materials to help them place social responsibility ads in local media, to promote responsible use of alcohol and deter impaired driving and underage drinking.

## Fundraising

Highlights this fiscal year included:

- more than $350,000 collected for MADD Canada and other good causes through donation boxes at checkouts
- another $130,000 raised for the United Way through employee donations and special events
- $117,000 raised for We Care, to help send children with disabilities to summer camp
- $75,000 raised for Camp Oochigeas, which provides summer getaways to kids with cancer
- more than $100,000 from the sale of compilation CDs, gift-wrap programs and events staged by employees on behalf of local charities.

## Environment

- LCBO contributed $5 million to help Ontario municipalities cover costs of recycling beverage alcohol containers through the Blue Box system. Since 1998, the LCBO has contributed $21 million to municipalities to help cover such costs, and will contribute $20 million more over the next four years.
- Wherever possible, we recycle corrugated cardboard, fine paper, polystyrene, bottles, cans, newspapers, batteries, printer cartridges, data tapes and other materials.
- We require suppliers to minimize packaging and often provide printing services to non-profit environmental organizations such as the Recycling Council of Ontario and Pollution Probe.

Milan Zrinscak
*Assistant Manager, Store 566, Burlington*

# Public Sector Disclosure Act

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, LCBO submits the following information for calendar 2002.

There are 60 LCBO names on this year's *Public Sector Disclosure Act* list, compared to 52 the year before. Eight employees appear for the first time, due to normal salary progression through their pay grade; additional pay received for acting assignments during the 2002 calendar year; unused Management Compensation Option (MCO) days taken as cash in lieu of days off (most management staff are eligible to receive five MCO days a year); or pay-for-performance bonuses that help LCBO attract and retain the high level of executive talent it needs to meet its strategic and business objectives.

| Name | Position | Employment Income | Taxable Benefits |
|---|---|---|---|
| Ashdown, Tony | Director, Human Resources Development | $117,228.46 | $276.81 |
| Bartucci, Ron | Director, Traffic, Customs & Excise | $108,091.22 | $263.29 |
| Bonic, Jacqueline | VP, Store Development & Real Estate | $146,099.62 | $335.76 |
| Bourre, Don | Director, Eastern Region | $122,698.27 | $1,151.89 |
| Brandt, Andrew | Chair & CEO | $125,035.77 | $5,000.00 |
| Browning, J. Alex | Sr. VP, Finance & Administration | $166,485.04 | $9,949.79 |
| Buck, Peter | Director, Human Resources Services | $138,052.86 | $317.31 |
| Burns, Tamara | VP, Merchandising | $146,895.76 | $342.84 |
| Cardinal, Nancy | VP, Marketing Communications | $147,099.62 | $335.76 |
| Chu, Hang-Sun | Sr. Systems Analyst | $103,481.51 | $211.11 |
| Clevely, Robert | Director, Central Region | $100,957.77 | $1,186.06 |
| Collins, Robert | Director, Customer Insights | $122,462.43 | $282.19 |
| Davio, Robert | Manager, Pricing Administration | $102,581.62 | $259.02 |
| Downey, Robert | Sr. VP, Sales & Marketing | $160,028.42 | $9,937.99 |
| Dutton, Rob | Dir., Fin. Planning & Development | $146,099.62 | $335.76 |
| Ecker, Roy | VP, Operations | $158,171.79 | $4,445.36 |
| Farrell, Michael | Director, Commercial Customer Services | $135,335.86 | $317.31 |
| Fisher, Ron | Director, Western Region | $143,474.26 | $339.51 |
| Fitzpatrick, Mary | Sr. VP, Gen. Counsel & Corp. Secretary | $166,485.04 | $9,949.79 |
| Gee, Larry* | Executive VP & COO | $218,286.39 | $128.28 |
| Grant, Keith | Director, Special Projects | $101,198.01 | $275.00 |
| Green, Michael | Solicitor | $131,913.93 | $317.31 |
| Holloway, Brian | Director, Application Systems | $133,158.93 | $317.31 |
| Kane, Murray | Sr. VP, Human Resources | $166,485.04 | $9,949.79 |
| Kelly, Hugh | Sr. VP, Information Technology | $166,485.04 | $9,949.79 |
| Kennedy, Bill | Exec. Director, Corp. Communications | $146,099.62 | $335.76 |
| Ker, Gerry | Exec. Director, Corporate Policy | $142,186.58 | $323.31 |
| Lamantia, Mark | Sr. Systems Analyst | $105,045.82 | $211.11 |
| Landy, Randi | Director, Beers & Special Markets | $114,920.26 | $283.23 |
| Lyons, Carol | Controller | $135,335.86 | $317.31 |
| MacGregor, Maralisa | Director, Supply Chain | $147,235.11 | $313.95 |
| Marshall, Dave | Director, Northern Region | $138,052.86 | $1,164.31 |
| Martin, John | Sr. VP, Logistics | $161,315.81 | $9,949.79 |
| McGrath, Bruce | Sr. Systems Analyst | $105,465.33 | $211.11 |
| McNee, Andrew | Solicitor | $122,266.06 | $303.72 |
| Misetich, David | Inventory Manager | $107,736.77 | $248.22 |
| Mogk-Edwards, Shari | Category Director, Spirits | $114,920.26 | $283.23 |
| Murphy, Peter | Director, Conventional Warehousing | $135,335.86 | $317.31 |
| Mutlak, Teresa | Dir., Financial Reporting & Technology | $105,905.26 | $265.53 |
| O'Brien, Barry | Director, Corporate Affairs | $120,861.64 | $277.71 |
| Peter, N. Robert | President and COO | $211,172.13 | $10,911.01 |
| Pizzolato, Bruce | Director, Durham Facility | $115,251.05 | $291.60 |
| Ramsay, Gary | Director, Application Systems | $135,335.86 | $317.31 |
| Renton, Alison | Solicitor | $136,672.20 | $316.95 |
| Russell, Kevin | Manager, Retail Planning | $100,429.75 | $237.54 |
| Salvisburg, Nanci | Director, Customer Service & Admin. | $132,957.06 | $507.95 |
| Schmidt, Linda | Inventory Manager | $102,331.69 | $250.74 |
| Sherwood, Garfield | Sr. VP, Retail | $166,485.04 | $5,163.25 |
| Soleas, George | VP, Quality Assurance | $139,704.84 | $326.28 |
| Stanley, Thomas | Director, IT Infrastructure | $101,002.53 | $253.03 |
| Stephens, Mike | District Manager | $103,616.10 | $323.37 |
| Sutton, Shelley | Director, Strategic Planning | $120,602.49 | $277.71 |
| Tughan, William | Director, Resource Protection | $118,483.64 | $277.71 |
| Turner, Jim | Director, Western Region | $122,698.27 | $435.89 |
| Van Kessell, Renee | Solicitor | $126,743.54 | $314.79 |
| Walker, R. Lila | Director, Compensation & HR Admin. | $118,291.17 | $276.81 |
| Whitelaw, Richard | Treasurer | $126,204.98 | $308.37 |
| Wilson, Tom | VP, Vintages | $143,224.62 | $335.76 |
| Yazejian, Levon | Director, General Audit | $118,955.87 | $277.71 |
| Zachar, Wayne | Director, Employee Relations | $138,052.86 | $317.31 |

*retired

# Responsibility for Financial Reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2003.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 54, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. C. Browning

J. Alex Browning
*Senior Vice President, Finance & Administration, and Chief Financial Officer*
*June 13, 2003*

# Financial Overview

## KEY INDICATORS: 1999–2003

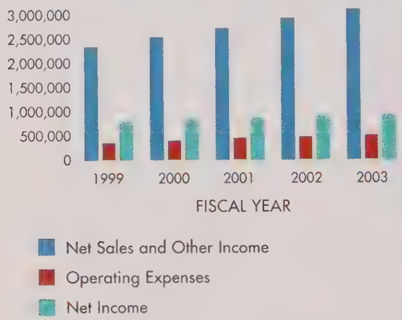

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

## OPERATIONS

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 600 | 602 | 600 | 599 | 597 |
| Number of Permanent Employees | 3,014 | 3,074 | 3,174 | 3,225 | 3,362 |
| Number of Regular Products Listed | 3,366 | 3,496 | 3,478 | 3,487 | 3,476 |

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

## FINANCIAL INDICATORS: 1999–2003 (values in $000s)

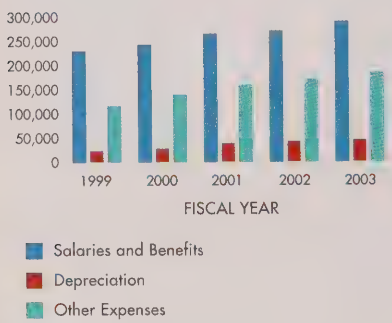



## FINANCIAL (values in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,349,832 | 2,549,458 | 2,734,937 | 2,939,563 | 3,119,240 |
| % Change/Previous Year | 8.75% | 8.50% | 7.28% | 7.48% | 6.11% |
| Operating Expenses | 374,558 | 414,861 | 468,090 | 489,633 | 525,959 |
| As a % of Net Sales & Other Income | 15.94% | 16.27% | 17.12% | 16.66% | 16.86% |
| Net Income | 809,425 | 845,694 | 876,272 | 920,913 | 939,542 |
| As a % of Net Sales & Other Income | 34.45% | 33.17% | 32.04% | 31.33% | 30.12% |

Note: The LCBO refers to sales in three different ways: first, gross sales which include the federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 48.

## OPERATING EXPENSES: 1999–2003 (values in $000s)




## BREAKDOWN OF OPERATING EXPENSES (values in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Salaries and Benefits | 231,486 | 244,399 | 266,929 | 272,594 | 291,762 |
| Depreciation | 25,580 | 29,582 | 40,546 | 44,260 | 47,602 |
| Other Expenses | 117,492 | 140,880 | 160,615 | 172,779 | 186,595 |
| Total Operating Expenses | 374,558 | 414,861 | 468,090 | 489,633 | 525,959 |

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

## TREASURER OF ONTARIO (values in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: on account of profits | 780,000 | 800,000 | 850,000 | 905,000 | 975,000 |
| Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor | 220,645 | 239,071 | 255,347 | 275,072 | 288,884 |
| Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits | 519,472 | 537,569 | 524,110 | 530,799 | 526,650 |
| Remitted by others:** Ontario Retail Sales Tax on sales through Beer Stores and Ontario Winery Retail Stores | 168,281 | 177,406 | 177,302 | 186,308 | 194,320 |
| Ontario Retail Sales Tax on sales through agency stores | 3,305 | 3,672 | 3,847 | 4,027 | 5,596 |
| **Total** | **1,691,703** | **1,757,718** | **1,810,606** | **1,901,206** | **1,990,450** |

* The Alcohol and Gaming Commission of Ontario (AGCO), The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

## RECEIVER GENERAL FOR CANADA (values in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: Excise taxes and Customs duties | 249,639 | 267,137 | 278,430 | 284,520 | 294,203 |
| Goods and Services Tax (GST) | 66,192 | 69,718 | 79,056 | 84,885 | 97,459 |
| Remitted by others: Excise taxes, GST and other duties/taxes | 333,407 | 367,637 | 361,917 | 355,868 | 303,508 |
| GST remitted on sales through agency stores | 1,928 | 2,142 | 2,244 | 2,349 | 3,264 |
| **Total** | **651,166** | **706,634** | **721,647** | **727,622** | **698,434** |

## ONTARIO MUNICIPALITIES (values in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: grants in lieu of realty and business taxes | 3,680 | 3,569 | 3,671 | 3,423 | 2,755 |
| **Total Revenue Payments** | **2,346,549** | **2,467,921** | **2,535,924** | **2,632,251** | **2,691,639** |

Note: These amounts do not include corporation, realty and business taxes paid by distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2003 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

## LCBO VOLUME SALES (in 000s Litres)

| Product Type | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Domestic Spirits | 31,834 | 33,310 | 34,286 | 33,897 | 33,570 |
| Domestic Spirit Coolers | 16,168 | 17,361 | 16,789 | 25,791 | 29,076 |
| Imported Spirits | 15,175 | 17,491 | 18,851 | 20,866 | 23,434 |
| **Total Spirits** | **63,177** | **68,162** | **69,926** | **80,554** | **86,080** |
| Domestic Wine | 25,795 | 26,523 | 26,958 | 28,445 | 29,912 |
| Domestic Wine Coolers | 544 | 489 | 499 | 549 | 426 |
| Imported Wine | 52,952 | 57,010 | 60,626 | 63,339 | 66,732 |
| **Total Wine** | **79,291** | **84,022** | **88,083** | **92,333** | **97,070** |
| Domestic Beer | 61,377 | 65,618 | 67,677 | 75,046 | 79,290 |
| Domestic Beer Coolers | 38 | 339 | 627 | 363 | 108 |
| Imported Beer | 55,827 | 64,451 | 73,756 | 83,337 | 92,242 |
| **Total Beer** | **117,242** | **130,408** | **142,060** | **158,746** | **171,640** |
| **Total Domestic** | **135,756** | **143,640** | **146,836** | **164,091** | **172,382** |
| **Total Imported** | **123,954** | **138,952** | **153,233** | **167,542** | **182,408** |
| **Total** | **259,710** | **282,592** | **300,069** | **331,633** | **354,790** |

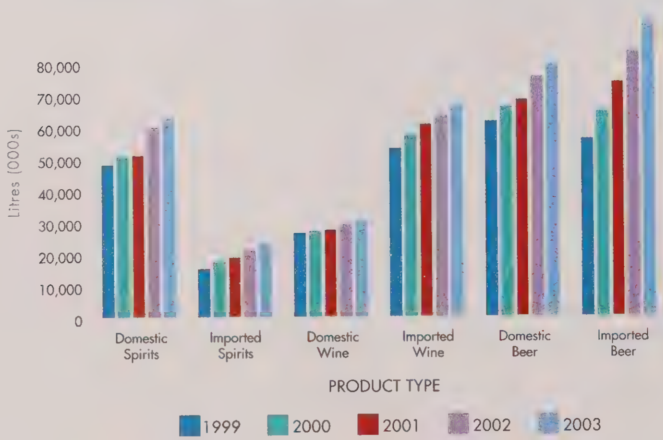
| Product Type | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 13,878 | 14,074 | 14,961 | 16,235 | 16,717 |
| Sales by The Beer Store & On-site Brewery Stores | 654,413 | 663,806 | 643,721 | 651,548 | 653,087 |

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2003 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

Note: 2002 figures have been restated.

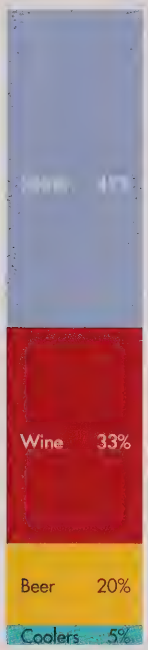
## SHARE OF VOLUME SALES


## LCBO VOLUME SALES BY PRODUCT TYPE: 1999-2003




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

## SHARE OF VALUE SALES




## LCBO VALUE SALES (in $000s)

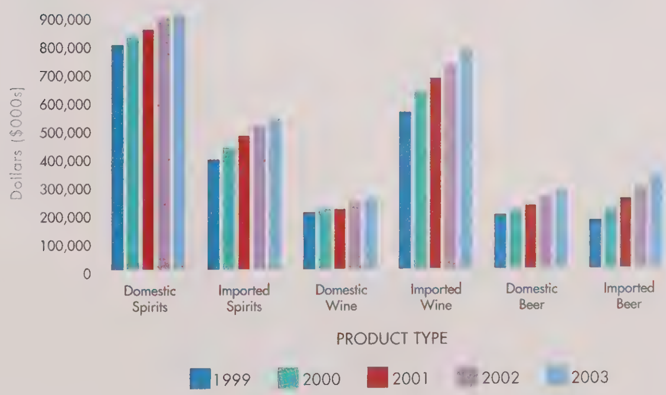
| Product Type | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Domestic Spirits | 717,270 | 739,313 | 771,487 | 764,567 | 761,589 |
| Domestic Spirit Coolers | 80,716 | 84,579 | 82,354 | 125,869 | 142,410 |
| Imported Spirits | 391,872 | 435,093 | 476,972 | 510,080 | 537,838 |
| **Total Spirits** | **1,189,858** | **1,258,985** | **1,330,813** | **1,400,516** | **1,441,837** |
| Domestic Wine | 201,723 | 211,595 | 214,443 | 234,238 | 249,272 |
| Domestic Wine Coolers | 1,976 | 1,797 | 1,954 | 2,134 | 1,606 |
| Imported Wine | 559,624 | 635,112 | 680,993 | 724,784 | 783,045 |
| **Total Wine** | **763,323** | **848,504** | **897,390** | **961,156** | **1,033,923** |
| Domestic Beer | 194,149 | 208,882 | 225,612 | 254,218 | 274,324 |
| Domestic Beer Coolers | 144 | 1,035 | 2,076 | 1,198 | 420 |
| Imported Beer | 174,284 | 210,815 | 252,221 | 295,426 | 339,926 |
| **Total Beer** | **368,577** | **420,732** | **479,909** | **550,842** | **614,670** |
| **Total Domestic** | **1,195,978** | **1,247,201** | **1,297,926** | **1,382,224** | **1,429,621** |
| **Total Imported** | **1,125,780** | **1,281,020** | **1,410,186** | **1,530,290** | **1,660,809** |
| **Non-Liquor** | **3,914** | **5,389** | **6,213** | **7,782** | **7,260** |
| **Total** | **2,325,672** | **2,533,610** | **2,714,325** | **2,920,296** | **3,097,690** |

| Product Type | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 111,765 | 118,219 | 123,739 | 137,994 | 146,457 |
| Sales by The Beer Store | 1,937,004 | 2,021,111 | 2,062,297 | 2,174,248 | 2,245,378 |

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

Note: 2002 figures have been restated.

## LCBO VALUE SALES BY PRODUCT TYPE: 1999-2003




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

## PRODUCT LISTINGS

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Spirits | 539 | 518 | 542 | 486 | 460 |
| Wine | 538 | 536 | 499 | 481 | 469 |
| Beer | 385 | 403 | 407 | 426 | 444 |
| **Imported** | | | | | |
| Spirits | 601 | 586 | 641 | 672 | 652 |
| Wine | 1,085 | 1,192 | 1,113 | 1,164 | 1,187 |
| Beer | 218 | 261 | 276 | 258 | 264 |
| **Total Regular Listings** | **3,366** | **3,496** | **3,478** | **3,487** | **3,476** |
| VINTAGES Wines and Spirits | 3,235 | 3,569 | 3,108 | 2,858 | 3,127 |
| Duty-Free Listings | 210 | 235 | 212 | 224 | 240 |
| Consignment Warehouse and Private Stock | 5,241 | 6,106 | 6,225 | 5,444 | 6,813 |
| **Total Product Listings** | **12,052** | **13,406** | **13,023** | **12,013** | **13,656** |

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

## LCBO SALES CHANNEL SUMMARY (in $000s)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| LCBO Total Sales | 2,725,858 | 2,967,710 | 3,177,916 | 3,417,729 | 3,622,049 |
| The Beer Store Total Sales | 2,214,918 | 2,324,225 | 2,381,289 | 2,522,993 | 2,607,077 |
| Winery Retail Stores Total Sales | 133,001 | 140,681 | 147,178 | 162,539 | 174,284 |
| **Other Channels:** | | | | | |
| Legal | 888,670 | 941,465 | 1,000,660 | 1,017,104 | 957,073 |
| Homemade | 63,567 | 59,070 | 49,025 | 48,013 | 50,852 |
| De-alcoholized Beer | 23,872 | 22,314 | 20,870 | 20,191 | 19,125 |
| Illegal | 542,896 | 455,801 | 405,918 | 432,435 | 455,529 |
| Grand Total | 6,592,782 | 6,911,266 | 7,182,856 | 7,621,004 | 7,885,989 |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the charts below.

## VALUE BY SALES CHANNEL

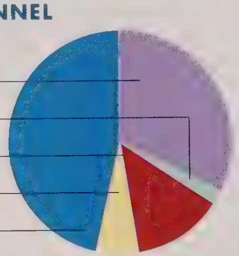
The Beer Store 32.4%

Winery Stores 2.3%

Other Legal 13.7%

Illegal 6.1%

LCBO 45.5%

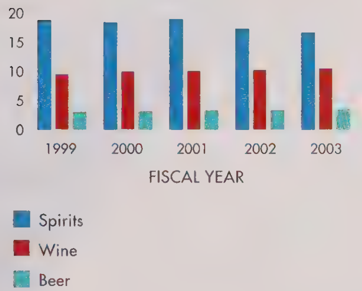


## AVERAGE LCBO RETAIL PRICES PER LITRE

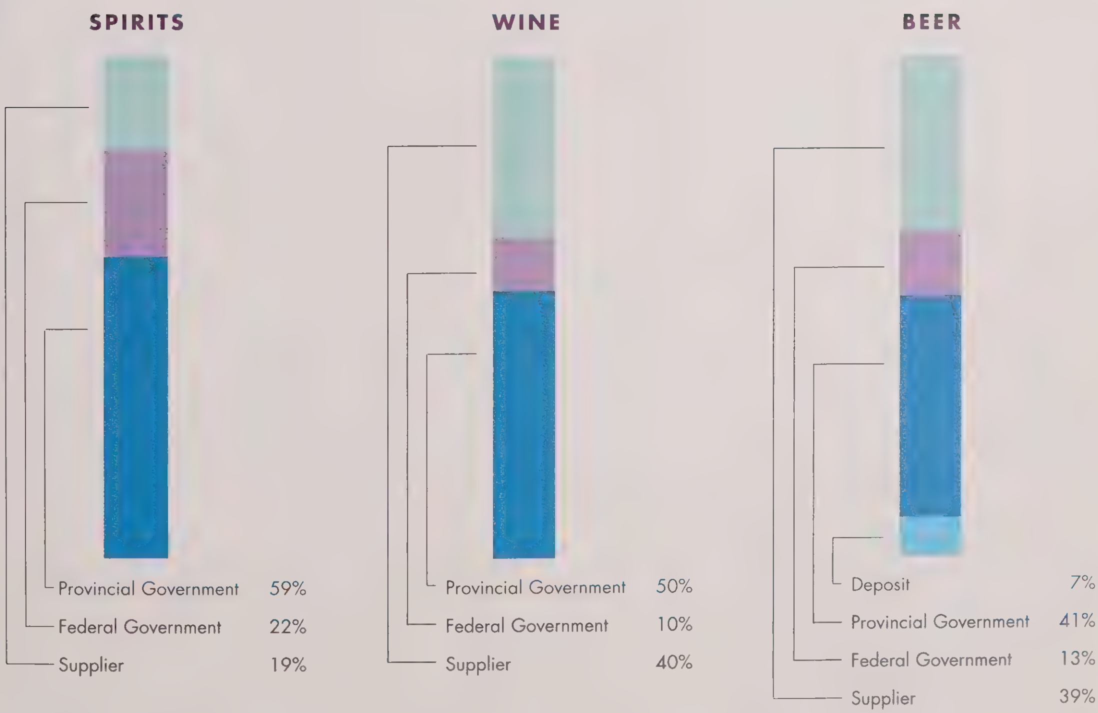
| Product Type | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Spirits | $18.83 | $18.47 | $19.03 | $17.39 | $16.75 |
| Wine | $9.63 | $10.10 | $10.19 | $10.41 | $10.65 |
| Beer | $3.14 | $3.23 | $3.38 | $3.47 | $3.58 |
| **Average Transaction Value per Customer** | **$28.07** | **$29.55** | **$30.51** | **$31.05** | **$31.90** |

Note: Retail prices exclude GST and PST. For all categories, coolers are included.

## AVERAGE LCBO RETAIL PRICES PER LITRE 1999-2003




## REVENUE DISTRIBUTION



The tables below show the share of volume sales held by various segments within major product categories.

## PRODUCT CATEGORY SHARE

| Canadian Spirits | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Canadian Whisky | 30.4% | 29.9% | 30.3% | 25.6% | 24.0% |
| Canadian Rum | 14.5% | 14.5% | 14.7% | 12.6% | 11.9% |
| Canadian Vodka | 14.3% | 14.2% | 14.6% | 12.7% | 12.2% |
| Spirit Coolers | 33.5% | 34.3% | 32.9% | 43.2% | 46.4% |
| Canadian Dry Gin | 2.2% | 2.1% | 2.1% | 1.6% | 1.3% |
| Other | 5.1% | 5.0% | 5.4% | 4.3% | 4.2% |

| Imported Spirits | | | | | |
|---|---|---|---|---|---|
| Scotch | 23.8% | 22.0% | 20.2% | 18.1% | 16.3% |
| Liqueur | 18.7% | 18.2% | 17.8% | 15.6% | 13.6% |
| Miscellaneous Liquors | 13.2% | 13.5% | 13.6% | 13.9% | 12.8% |
| Vodka | 13.9% | 15.5% | 16.0% | 15.7% | 15.0% |
| French Brandy | 9.4% | 9.0% | 8.8% | 8.0% | 7.5% |
| Spirit Coolers | 0.1% | 0.6% | 2.5% | 8.6% | 16.7% |
| Other | 20.9% | 21.2% | 21.1% | 20.1% | 18.1% |

| Canadian Wines | | | | | |
|---|---|---|---|---|---|
| White Table | 48.6% | 48.4% | 48.4% | 49.2% | 49.8% |
| Red Table | 22.3% | 24.1% | 25.7% | 26.6% | 28.4% |
| 7% Sparkling | 6.1% | 6.2% | 5.6% | 5.5% | 5.3% |
| Sherry | 4.5% | 4.4% | 4.5% | 4.6% | 4.5% |
| Wine Coolers | 3.8% | 1.8% | 1.7% | 1.9% | 1.7% |
| Other | 14.7% | 15.1% | 14.1% | 12.2% | 10.3% |

| Imported Wines | | | | | |
|---|---|---|---|---|---|
| White Table | 42.3% | 39.6% | 37.6% | 36.4% | 34.7% |
| Red Table | 43.2% | 44.4% | 46.3% | 47.4% | 49.4% |
| Champagne | 4.1% | 4.6% | 3.5% | 3.5% | 3.4% |
| Sherry | 1.3% | 1.1% | 1.0% | 0.9% | 0.8% |
| Other | 9.1% | 10.3% | 11.6% | 11.8% | 11.7% |

| Canadian Beer | | | | | |
|---|---|---|---|---|---|
| Ontario Beer | 92.4% | 91.3% | 88.4% | 87.3% | 85.3% |
| Other Canadian Beer | 7.6% | 8.7% | 11.6% | 12.7% | 14.7% |

| Imported Beer | | | | | |
|---|---|---|---|---|---|
| U.S. Beer | 41.8% | 36.9% | 31.0% | 25.1% | 18.5% |
| Other Imported Beer | 57.9% | 62.9% | 68.8% | 74.7% | 81.3% |
| Saké | 0.3% | 0.2% | 0.2% | 0.2% | 0.2% |

The following table shows detailed sales of wine by volume and value (LCBO sales only).

## VOLUME (000s litres)

| Product Type | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| Red Wine | 31,012 | 34,100 | 36,421 | 39,699 |
| White Wine | 34,913 | 35,189 | 35,786 | 36,072 |
| Rosé Wine | 3,264 | 2,984 | 2,934 | 2,878 |
| Sparkling Wine | 4,704 | 3,894 | 3,892 | 3,858 |
| Fortified Wine | 3,373 | 3,457 | 3,400 | 3,328 |
| Wine Coolers | 947 | 868 | 812 | 654 |
| Other Wine | 3,968 | 5,358 | 5,564 | 5,533 |
| VQA Wines* | 3,158 | 3,659 | 3,933 | 4,387 |

## VALUE ($000s)

| Product Type | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| Red Wine | 347,051 | 390,289 | 430,867 | 478,088 |
| White Wine | 312,901 | 319,344 | 330,730 | 340,611 |
| Rosé Wine | 27,699 | 25,091 | 24,703 | 24,236 |
| Sparkling Wine | 70,310 | 52,914 | 53,161 | 55,451 |
| Fortified Wine | 32,995 | 34,691 | 33,918 | 33,919 |
| Wine Coolers | 4,454 | 3,970 | 3,594 | 2,883 |
| Other Wine | 30,024 | 42,858 | 45,354 | 46,258 |
| VQA Wines* | 41,259 | 47,770 | 50,205 | 56,445 |

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO spirits sales by country of origin for fiscal 2002–03.

## SPIRITS 2002-03

| Country | NET SALES | LITRES |
|---|---|---|
| Canada | $902,631,132 | 62,603,065 |
| Great Britain | $172,916,983 | 8,953,606 |
| France | $83,069,222 | 2,554,192 |
| U.S.A. | $55,595,571 | 2,743,946 |
| Ireland | $51,132,114 | 1,869,612 |
| Sweden | $36,369,644 | 1,778,601 |
| Mexico | $31,900,354 | 1,011,933 |
| Italy | $31,579,128 | 1,316,392 |
| Finland | $11,623,857 | 528,730 |
| Russian Federation | $7,991,423 | 370,814 |
| Germany | $7,966,248 | 305,391 |
| Poland | $6,778,339 | 287,793 |
| Jamaica | $4,870,104 | 183,189 |
| Barbados | $4,362,927 | 181,185 |
| Greece | $3,750,318 | 170,955 |
| South Africa | $3,226,711 | 130,765 |
| Switzerland | $2,908,097 | 92,517 |
| Netherlands | $2,731,208 | 129,668 |
| New Zealand | $1,898,224 | 271,169 |
| Cuba | $1,447,594 | 54,490 |
| Portugal | $1,105,407 | 39,907 |
| Bermuda | $1,051,623 | 39,206 |
| Croatia | $849,951 | 33,711 |
| Puerto Rico | $804,719 | 31,069 |
| Austria | $657,127 | 14,117 |
| Hungary | $619,873 | 25,658 |
| Spain | $614,838 | 26,240 |
| Bahamas | $333,842 | 10,710 |
| Denmark | $327,942 | 14,257 |
| Lebanon | $322,758 | 13,024 |
| Guyana | $320,938 | 11,050 |
| Ukraine | $262,331 | 11,075 |
| Czech Republic | $245,093 | 7,351 |
| India | $231,700 | 10,068 |
| People's Republic of China | $219,820 | 10,857 |

### SPIRITS CONTINUED

| Country | NET SALES | LITRES |
|---|---|---|
| Belgium | $133,609 | 5,493 |
| Brazil | $94,225 | 3,793 |
| Israel | $83,931 | 3,581 |
| Republic of Yugoslavia | $62,456 | 1,612 |
| Chile | $58,955 | 2,141 |
| Trinidad | $51,812 | 2,342 |
| Philippines | $15,950 | 697 |
| Cyprus | $11,330 | 522 |
| Norway | $10,392 | 260 |
| Bolivia | $9,980 | 421 |
| Georgia | $8,517 | 150 |
| Macedonia | $4,777 | 199 |
| Peru | $2,794 | 78 |
| Australia | $1,191 | 15 |
| Antigua | $323 | 14 |
| **Total** | **$1,433,267,402** | **85,857,631** |

The following table shows LCBO wine sales by country of origin for fiscal 2002–03.

## WINE 2002–03

| Country | NET SALES | LITRES |
|---|---|---|
| Canada | $222,659,319 | 27,510,870 |
| France | $199,168,048 | 17,068,646 |
| Italy | $169,834,090 | 15,757,084 |
| Australia | $129,688,693 | 8,730,535 |
| U.S.A. | $98,603,028 | 8,482,126 |
| Chile | $42,912,449 | 4,105,818 |
| Germany | $20,604,079 | 1,980,873 |
| Portugal | $20,419,057 | 1,703,093 |
| Spain | $19,955,251 | 1,581,921 |
| South Africa | $16,533,974 | 1,576,265 |
| New Zealand | $7,336,419 | 434,166 |
| Argentina | $5,671,695 | 585,710 |
| Greece | $4,582,420 | 577,751 |
| Hungary | $3,273,052 | 432,568 |
| Great Britain | $2,829,538 | 600,824 |
| Bulgaria | $2,720,518 | 347,096 |
| Republic of Yugoslavia | $914,266 | 115,624 |
| Croatia | $665,460 | 75,651 |
| Israel | $598,547 | 55,702 |
| Austria | $427,772 | 33,268 |
| Mexico | $383,917 | 36,911 |
| Poland | $340,681 | 22,492 |
| Jamaica | $320,365 | 32,988 |
| Lebanon | $259,569 | 15,321 |
| Romania | $248,959 | 30,860 |
| Denmark | $201,455 | 17,721 |
| Macedonia | $186,643 | 25,081 |
| Japan | $179,412 | 14,267 |
| Slovenia | $141,301 | 18,734 |
| Cyprus | $126,739 | 11,669 |
| Switzerland | $124,587 | 5,689 |
| Morocco | $82,882 | 9,177 |
| Republic of Moldova | $65,257 | 7,357 |
| Uruguay | $60,529 | 6,639 |
| Estonia | $48,014 | 4,660 |
| Belgium | $17,660 | 887 |
| People's Republic of China | $16,401 | 1,720 |
| Georgia | $12,557 | 938 |
| Czech Republic | $812 | 124 |
| Turkey | $6 | 2 |
| **Total** | $972,215,421 | 92,018,828 |

The following table shows LCBO beer sales by country of origin for fiscal 2002–03.

## BEER 2002–03

| Country | NET SALES | LITRES |
|---|---|---|
| Canada | $271,021,961 | 76,876,384 |
| Netherlands | $75,636,144 | 17,791,929 |
| Mexico | $73,254,828 | 16,737,033 |
| U.S.A. | $59,685,428 | 18,430,840 |
| Germany | $28,149,642 | 7,912,727 |
| Great Britain | $15,322,211 | 4,071,606 |
| Belgium | $13,171,798 | 2,958,633 |
| Ireland | $12,956,369 | 2,941,062 |
| Denmark | $8,482,721 | 2,663,770 |
| Poland | $8,336,934 | 2,474,219 |
| Czech Republic | $5,016,432 | 1,369,898 |
| Japan | $2,925,277 | 656,804 |
| Trinidad | $1,293,871 | 326,407 |
| Jamaica | $1,271,719 | 334,185 |
| People's Republic of China | $1,203,798 | 327,093 |
| Singapore | $625,185 | 190,189 |
| Brazil | $593,880 | 131,014 |
| Italy | $550,468 | 138,556 |
| Portugal | $523,369 | 140,389 |
| South Africa | $378,729 | 116,110 |
| New Zealand | $334,755 | 89,867 |
| Ukraine | $280,679 | 78,221 |
| Philippines | $260,108 | 76,610 |
| Thailand | $227,624 | 53,434 |
| Cuba | $171,414 | 39,694 |
| Croatia | $149,450 | 41,539 |
| Greece | $132,366 | 33,597 |
| Austria | $115,915 | 34,794 |
| Slovakia | $115,479 | 39,779 |
| Kenya | $86,264 | 20,164 |
| Russian Federation | $86,147 | 23,997 |
| Cyprus | $45,097 | 10,724 |
| Australia | $42,641 | 9,994 |
| Spain | $40,034 | 9,939 |
| India | $37,231 | 8,802 |
| France | $28,445 | 3,745 |
| Lebanon | $28,301 | 7,006 |
| Israel | $39 | 11 |
| Panama | $7 | 2 |
| **Total** | $582,582,760 | 157,170,767 |

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 2002–03, the LCBO sold products from 65 different countries.

# Auditor's Report

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2003 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2003, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters, FCA
*Provincial Auditor*
*Toronto, Ontario*
*June 13, 2003*

## Balance Sheet As at March 31, 2003

| **ASSETS** (in $000s) | 2003 | 2002 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 46,385 | 80,108 |
| Accounts receivable, trade and others | 22,365 | 19,298 |
| Inventories | 247,523 | 226,285 |
| Prepaid expenses | 6,619 | 8,337 |
| | **322,892** | **334,028** |
| **Long-term** | | |
| Capital assets (Note 5) | 225,045 | 197,895 |
| | **547,937** | **531,923** |

| **LIABILITIES AND RETAINED INCOME** | 2003 | 2002 |
|---|---|---|
| **Current** | | |
| Accounts payable and accrued liabilities | 262,140 | 216,518 |
| Current portion of accrued benefit obligation (Note 3) | 4,508 | 3,525 |
| | **266,648** | **220,043** |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 32,891 | 28,024 |
| Retained income | 248,398 | 283,856 |
| | **547,937** | **531,923** |

**Commitments and Contingencies (Notes 6 and 8)**

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
*Chair and Chief Executive Officer*

Thom A. Bennett
*LCBO Board Member; Chair, Audit and Governance Review Committee*

## STATEMENT OF INCOME AND RETAINED INCOME

Year ended March 31, 2003

| (in $000s) | 2003 | 2002 |
|---|---|---|
| **Sales and other income** | **3,119,240** | **2,939,563** |
| **Costs and expenses** | | |
| Cost of sales | 1,653,739 | 1,529,018 |
| Retail stores and marketing | 360,448 | 344,759 |
| Warehousing and distribution | 64,431 | 54,137 |
| Administration | 53,478 | 46,477 |
| Amortization | 47,602 | 44,260 |
| | **2,179,698** | **2,018,651** |
| Net income for the year | 939,542 | 920,912 |
| Retained income, beginning of year | 283,856 | 267,944 |
| | **1,223,398** | **1,188,856** |
| Deduct: Dividend paid to Province of Ontario | 970,000 | 901,000 |
| Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 4,000 |
| | **975,000** | **905,000** |
| **Retained income, end of year** | **248,398** | **283,856** |

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS Year ended March 31, 2003

| (in $000s) | 2003 | 2002 |
|---|---|---|
| **Cash provided from operations** | | |
| Net income | 939,542 | 920,912 |
| Amortization | 47,602 | 44,260 |
| Gain (Loss) on sale of capital assets | (1,306) | 200 |
| | **985,838** | **965,372** |
| **Non-cash balances related to operations** | | |
| Working capital | 23,035 | 26,116 |
| Accrued benefit obligation | 5,850 | 1,018 |
| | **1,014,723** | **992,506** |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (75,062) | (55,735) |
| Proceeds from sale of capital assets | 1,616 | 376 |
| | **(73,446)** | **(55,359)** |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (970,000) | (901,000) |
| Payment to municipalities on behalf of the Province of Ontario | (5,000) | (4,000) |
| | **(975,000)** | **(905,000)** |
| Increase (decrease) in cash during the year | (33,723) | 32,147 |
| Cash and cash equivalents, beginning of year | 80,108 | 47,961 |
| **Cash and cash equivalents, end of year** | **46,385** | **80,108** |

See accompanying notes to financial statements.

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### (d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

## 3. Accrued Benefit Obligation

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers' compensation obligation.

In fiscal 2003, the cost of these employee future benefits was \$8.7 million (2002 – \$5.8 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2003 is \$37.4 million (2002 – \$31.5 million) of which \$4.5 million (2002 – \$3.5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2003, the expense was \$11.1 million (2002 – \$10.1 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

## 5. Capital Assets

| (in $000's) | 2003 Cost | 2003 Accumulated Amortization | 2003 Net Book Value | 2002 Net Book Value |
|---|---|---|---|---|
| Land | 13,584 | — | 13,584 | 13,737 |
| Buildings | 294,354 | 201,186 | 93,168 | 92,704 |
| Furniture and fixtures | 55,139 | 32,600 | 22,539 | 12,628 |
| Leasehold improvements | 156,782 | 94,513 | 62,269 | 45,097 |
| Computer equipment | 120,895 | 87,410 | 33,485 | 33,729 |
| | **640,754** | **415,709** | **225,045** | **197,895** |

## 6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | (in $000s) |
|---|---|
| 2004 | 32,411 |
| 2005 | 30,739 |
| 2006 | 28,487 |
| 2007 | 26,518 |
| 2008 | 23,982 |
| Thereafter | 181,468 |
| | **323,605** |

## 7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2003 the Board had $4,448,340 (2002 – $3,702,693) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

## 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. Payment to Municipalities

During fiscal 2003, in accordance with Section 5(2) of the *Liquor Control Act*, 1990, the Board was directed by Cabinet to contribute $5 million (2002 - $4 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million annually in each of the next three years.

# Board Members

**Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through orders-in-council. Appointments, up to five years, are sometimes renewed.**

**ANDREW S. BRANDT:**
Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February 2006.

Re-appointed in 2003 for a fifth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and in 1987 was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. During his tenure as Chair and CEO, Mr. Brandt has played a key role in the transformation of the LCBO from staid government bureaucracy to award-winning retailer, reflected in eight straight record dividend transfers to the Government of Ontario.

**THOM A. BENNETT:**
Appointed October 11, 2000. Term expires October 2003.

President and owner of Bennett Insurance Agency Ltd., Mr. Bennett is a seasoned senior executive with a business management background and expertise in the field of employee benefits. He has served as Chair of the Ontario Video Lottery Corporation and Vice-Chair of the Ontario Lottery Corporation, where he took part in a major restructuring program designed to enhance efficiency and profitability. A resident of Ottawa, he sits on the Board of Directors of the University of Ottawa Heart Institute; has coached little league baseball in Nepean; has served as Secretary of the Kiwanis Club of South Ottawa; and was a Cub Leader with the Boy Scouts of Canada.

**GAYLE CHRISTIE:**
Appointed June 13, 2001. Term expires June 2004.

Ms. Christie is a Toronto government relations consultant who advises private-sector clients on how to work with municipalities, drawing on her experience as a former trustee, councillor and mayor of the city of York, which was amalgamated into Toronto in 1997. As mayor of York from 1978-82, she established the city's first internal audit committee and instituted other reforms to increase productivity and accountability. She then spent eight years with accounting firm Clarkson Gordon (now part of Ernst & Young), further developing her skills. In addition to her consultancy, she sits on several boards, including Humber River Regional Hospital, Runnymede Chronic Care Hospital and Yorktown Community Services.

**BEV HAMMOND:**
Appointed September 26, 2002.
Term expires September 2005.

Bev Hammond is President of Veritas Communications, a Toronto firm that counsels clients on public, investor and government relations. Before joining Veritas, she combined her agency work with extensive experience as a political communications advisor. She has been a senior advisor to the federal Minister of Small Business, Tourism and International Trade, as well as Communications Director and Press Secretary to Ontario's Deputy Premier and Minister of Finance, and Executive Assistant to the Government House Leader. She was Media Director and Strategic Advisor on Premier Ernie Eves' leadership campaign in 2002. She serves on the boards of Food Buddies and Special Olympics Canada, and is a member of the Canadian Investor Relations Institute (CIRI), the Toronto Board of Trade and the advisory board for the CHSRF Chair in Nursing Human Resources.

**JOHN C. HOPPER:**
Appointed September 8, 1997.
Term expires September 2003.

A native of Ottawa, Mr. Hopper is President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. A former North Bay City councillor, he has a long history of community service: he is a member of the Masonic Lodge; a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a Governor of Thorneloe University in Sudbury; and he chaired the fundraising campaign for North Bay's new General Hospital while serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

**DR. MERLE A. JACOBS:**
Appointed December 17, 1997.
Term expires December 2003.

Dr. Jacobs' professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. Now an Assistant Professor in York University's Department of Sociology, she has served on the Board of Toronto's Queen Street Mental Health Centre and is a member of the Registered Nurses Association of Ontario's Mental Health Interest Group, as well as its Policy Committee. She is a director of Roots Cultural Foundation and Royal Business Training Centre. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues. She recently edited *Women at the Margins: Is Anyone Listening?*, a reader focusing on gender equality in the workplace and in society.

**PERRY MIELE:**
Appointed April 3, 2002
Term expires April 2005

Chair and Partner of Financial Task Force Inc., a Canadian merchant banking firm in Toronto, Mr. Miele has extensive senior-level experience as a strategic builder of businesses across a broad range of categories. After serving as chief of staff to the Hon. Pat Carney during NAFTA negotiations, he joined integrated marketing services company Gingko in 1987 as a partner and quickly helped the firm to grow. The company merged with Draft-Worldwide of Chicago in 1988 and he became President of the International Group, responsible for operations in 24 countries. Well versed in consumer insight and research methodology, Mr. Miele has worked in every marketing discipline, including advertising, sales promotion, public relations, direct marketing, telemarketing and digital marketing.

# Useful Facts

**For the fiscal year ended March 31, 2003, unless otherwise noted**

## *The Marketplace*

| | |
|---|---|
| 597 | Number of LCBO stores serving communities across Ontario |
| 155 | Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store or Beer Store |
| 876 | Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately operated duty-free stores in Ontario |
| 45.5 | Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO |
| $7.9 billion | Total estimated value of Ontario's beverage alcohol market |
| $456 million | Estimated value of Ontario's illegal alcohol market |

## *Our Stores*

| | |
|---|---|
| 71 | Number of LCBO stores offering more than 2,500 brands for sale |
| 144 | Number of LCBO stores offering 1,500-2,500 brands for sale |
| 150 | Number of LCBO stores offering 1,000-1,500 brands for sale |
| 205 | Number of LCBO stores offering 500-1,000 brands for sale |
| 27 | Number of LCBO stores offering fewer than 500 brands for sale |
| 14,439 | Number of product tastings conducted in LCBO stores |
| 1 | Percentage of customers in a February 2003 survey who said they were dissatisfied with service in LCBO stores |
| 97 million | Total number of transactions in LCBO stores |
| 30.1 | Percentage of all LCBO transactions paid by debit card |
| 25.5 | Percentage of all LCBO transactions paid by credit card |

## *Our Financial Performance*

| | |
|---|---|
| $3.1 billion | The LCBO's net sales and other income |
| $975 million | Dividend the LCBO transferred to the Government of Ontario (excluding taxes) |
| $4.3 billion | Amount the LCBO has transferred the last five fiscal years combined (excluding taxes) |
| 353 | Percentage return on taxpayers' equity in 2002–03 |
| 30.3 | The LCBO's profit margin, expressed as a percentage |
| 16.7 | The LCBO's operating expenses as a percentage of net sales |
| $289 million | Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) |
| $392 million | Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties |
| $46.6 million | Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) |

## *Products and Pricing*

| | |
|---|---|
| 13,656 | Total number of products available through LCBO stores, catalogues and private ordering service |
| 3,127 | Number of VINTAGES products offered in stores and through the *Classics Catalogue* and other programs |
| 65 | Number of countries from which the LCBO bought products |
| 1,180 | Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program |
| 1,173 | Number of products that carried a "value-add" bonus item |
| 883 | Number of products with bonus AIR MILES Rewards |

# Statistical Insert

FOR LCBO ANNUAL REPORT, FISCAL 2002-03

## Retail Price Breakdowns

### Spirits

| Examples as at March 31, 2003 for 750 mL bottle in Canadian dollars (40% Alcohol) | Imported U.S. | Imported Non-U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $3.4193 | $3.4448 | $3.8378 |
| Federal Excise Tax | $3.3198 | $3.3198 | $3.3198 |
| Federal Import Duty | $0.0000 | $0.0148 | $0.0000 |
| Freight | $0.2500 | $0.2125 | $0.0400 |
| **Total Landed Cost** | **$6.9891** | **$6.9919** | **$7.1976** |
| LCBO Markup | $10.1412 | $10.1383 | $9.9327 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$17.44** | **$17.44** | **$17.44** |
| Goods and Services Tax | $1.22 | $1.22 | $1.22 |
| Provincial Retail Sales Tax | $2.09 | $2.09 | $2.09 |
| **Consumer Price** | **$20.75** | **$20.75** | **$20.75** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.67 | $3.66 | $3.88 |
| Government of Canada | $4.54 | $4.55 | $4.54 |
| Government of Ontario | $12.54 | $12.54 | $12.33 |

### Wines

| Examples as at March 31, 2003 for 750 mL bottle in Canadian dollars | Imported U.S. | Imported Non-U.S. | Domestic 100% Ont. |
|---|---|---|---|
| Payment to Supplier | $3.6942 | $3.6345 | $4.0272 |
| Federal Excise Tax | $0.3842 | $0.3842 | $0.3842 |
| Federal Import Duty | $0.0000 | $0.0281 | $0.0000 |
| Freight | $0.1669 | $0.2038 | $0.0000 |
| **Total Landed Cost** | **$4.2453** | **$4.2506** | **$4.4114** |
| LCBO Markup | $2.7170 | $2.7204 | $2.5586 |
| LCBO Wine Levy | $1.1250 | $1.1250 | $1.1250 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0100 | $0.0000 | $0.0000 |
| **Basic Price** | **$8.40** | **$8.40** | **$8.40** |
| Goods and Services Tax | $0.59 | $0.59 | $0.59 |
| Provincial Retail Sales Tax | $1.01 | $1.01 | $1.01 |
| **Consumer Price** | **$10.00** | **$10.00** | **$10.00** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.86 | $3.84 | $4.03 |
| Government of Canada | $0.97 | $1.00 | $0.97 |
| Government of Ontario | $5.17 | $5.16 | $5.00 |

## Beer

**Examples as at March 31, 2003 for a case of 24 x 341 mL bottles in Canadian dollars**

| | Imported U.S. | Imported Non - U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | 11.1949 | 11.0813 | 13.0619 |
| Federal Excise Tax | 2.2903 | 2.2903 | 2.2903 |
| Federal Import Duty | 0.0000 | 0.0000 | 0.0000 |
| Freight | 0.5248 | 0.6384 | 0.0000 |
| **Total Landed Cost** | **14.0100** | **14.0100** | **15.3522** |
| LCBO In-store COS | 4.9595 | 4.9595 | 4.9595 |
| LCBO Out-of-store COS | 1.3422 | 1.3422 | 0.0000 |
| LCBO Markup | 4.1779 | 4.1779 | 4.1779 |
| LCBO Bottle Levy | 1.4404 | 1.4404 | 1.4404 |
| LCBO Environment Fee | 0.0000 | 0.0000 | 0.0000 |
| LCBO Rounding Revenue | 0.0000 | 0.0000 | 0.0000 |
| **Basic Price** | **25.93** | **25.93** | **25.93** |
| Goods and Services Tax | $1.81 | $1.81 | $1.81 |
| Provincial Retail Sales Tax | $3.11 | $3.11 | $3.11 |
| Container Deposit | $2.40 | $2.40 | $2.40 |
| **Consumer Price** | **33.25** | **33.25** | **33.25** |
| Supplier (including freight) | $11.72 | $11.72 | $13.06 |
| Government of Canada | $4.10 | $4.10 | $4.10 |
| Government of Ontario | $15.03 | $15.03 | $13.69 |
| Container Deposit | $2.40 | $2.40 | $2.40 |

**Revenue Distribution**

| | Domestic Spirits | Domestic Wine | Domestic Beer |
|---|---|---|---|
| Supplier | 19% | 40% | 39% |
| Federal Government | 22% | 10% | 13% |
| Provincial Government | 59% | 50% | 41% |
| Deposit | | | 7% |

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven-Year Financial Performance Review

(values in $000s)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| Sales and Other Income | $3,119,240 | $2,939,563 | $2,734,937 | $2,549,458 | $2,349,832 |
| Cost of Sales | $1,653,739 | $1,529,018 | $1,390,575 | $1,288,903 | $1,165,849 |
| Gross Profit | $1,465,501 | $1,410,545 | $1,344,362 | $1,260,555 | $1,183,983 |
| Per Cent | 46.98% | 47.98% | 49.16% | 49.44% | 50.39% |
| Operating Expenses | $525,959 | $489,633 | $468,090 | $414,861 | $374,558 |
| Net Income | $939,542 | $920,913 | $876,272 | $845,694 | $809,425 |
| **Statement of Cash Flow** | | | | | |
| Cash Flow from Operations | $985,800 | $965,372 | $917,010 | $876,196 | $834,465 |
| Change in Working Capital | $28,885 | $27,134 | $5,428 | ($15,198) | ($8,651) |
| Cash Used for Investing Activities | ($73,408) | ($55,359) | ($55,610) | ($54,443) | ($40,265) |
| Cash Used for Provincial Transfers | ($975,000) | ($905,000) | ($850,000) | ($800,000) | ($780,000) |
| Decrease/Increase in Cash During the Year | ($33,723) | $32,147 | $16,828 | $6,555 | $5,549 |
| **Financial Position** | | | | | |
| Current Assets | $322,892 | $334,028 | $330,315 | $308,724 | $275,774 |
| Current Liabilities | $299,539 | $248,067 | $249,367 | $221,226 | $210,029 |
| Working Capital | $23,353 | $85,961 | $80,948 | $87,498 | $65,745 |
| Fixed Assets | $225,045 | $197,895 | $186,996 | $172,124 | $148,183 |
| Total Assets | $547,937 | $531,923 | $517,311 | $480,848 | $423,957 |
| **Financial Ratios** | | | | | |
| Profit Margin | 30.33% | 31.53% | 32.28% | 33.38% | 34.80% |
| Return on Shareholders' Equity | 353.04% | 333.79% | 332.19% | 357.17% | 406.31% |
| Current Ratio | 1.08 | 1.35 | 1.32 | 1.40 | 1.31 |
| **Statistics** | | | | | |
| Inventory Turnover | 7.46 | 5.95 | 5.29 | 5.26 | 5.40 |
| Number of Permanent Employees | 3,362 | 3,225 | 3,174 | 3,074 | 3,014 |
| Sales per Permanent Employee | $921,383 | $905,518 | $855,175 | $824,206 | $771,623 |
| Number of Stores | 597 | 599 | 601 | 602 | 600 |
| Number of Regular Products Listed | 3,476 | 3,487 | 3,478 | 3,496 | 3,366 |

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars. Inventory turnover has been restated from 1999 onwards due to new methodology being used.

| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| $2,160,843 | $2,013,873 | $1,909,804 | $1,808,518 | $1,764,731 | $1,786,479 |
| $1,064,286 | $988,386 | $919,268 | $858,190 | $832,106 | $841,060 |
| $1,096,557 | $1,025,487 | $990,536 | $950,328 | $932,625 | $945,419 |
| 50.75% | 50.92% | 51.87% | 52.55% | 52.85% | 52.92% |
| $351,653 | $324,457 | $323,819 | $313,029 | $333,716 | $332,953 |
| $744,904 | $701,030 | $666,717 | $637,299 | $598,909 | $612,466 |
| **Statement of Cash Flow** | | | | | |
| $769,507 | $723,197 | $687,663 | $655,198 | $619,979 | $635,298 |
| ($29,537) | $49,819 | $9,659 | $5,473 | ($15,824) | ($8,694) |
| ($25,524) | ($19,424) | ($26,256) | ($26,895) | ($14,753) | ($21,075) |
| ($745,000) | ($730,000) | ($680,000) | ($630,000) | ($585,000) | ($615,000) |
| ($30,554) | $23,592 | ($8,934) | $3,776 | $4,402 | ($9,471) |
| **Financial Position** | | | | | |
| $230,720 | $256,209 | $239,516 | $229,541 | $201,204 | $192,955 |
| $179,175 | $203,647 | $160,727 | $132,159 | $92,813 | $104,789 |
| $51,545 | $52,562 | $78,789 | $97,382 | $108,391 | $88,166 |
| $132,958 | $132,037 | $134,780 | $129,470 | $120,474 | $126,790 |
| $363,678 | $388,246 | $374,296 | $359,011 | $321,678 | $319,745 |
| **Financial Ratios** | | | | | |
| 35.03% | 35.11% | 35.33% | 35.61% | 34.24% | 34.36% |
| 403.63% | 352.13% | 302.76% | 285.63% | 269.90% | 281.94% |
| 1.29 | 1.26 | 1.49 | 1.74 | 2.17 | 1.84 |
| **Statistics** | | | | | |
| 5.53 | 5.02 | 5.07 | 4.92 | 5.02 | 4.70 |
| 2,934 | 2,828 | 2,803 | 2,824 | 2,743 | 3,100 |
| $724,866 | $706,079 | $673,273 | $633,656 | $637,678 | $574,998 |
| 596 | 595 | 596 | 597 | 600 | 611 |
| 3,098 | 2,960 | 3,149 | 3,053 | 2,824 | 2,737 |

LCBO

| | |
|---|---|
| 81 | Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups |
| 60 | Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups |
| 54 | Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups |

## *Our Employees*

| | |
|---|---|
| 1,321 | Number of Retail employees who received social responsibility training to help prevent service to minors or people who appear intoxicated |
| 328 | Number of Retail employees who passed the highest level of our three-level Product Knowledge Course this year |
| 1,112 | Number of Retail employees who passed the LCBO Service Knowledge Course this year |
| 88,953 | Number of calls handled by LCBO Infoline officers |
| 6,984 | Number of e-mails handled by LCBO Infoline officers |

## *Our Fundraising*

| | |
|---|---|
| 998 | Number of employees who contributed to the LCBO United Way campaign in calendar 2002 |
| $130,000 | Total amount raised by employees through donations and special events |
| $238,000 | Amount raised for charity through donation boxes in LCBO stores in calendar 2002 (Note: This does not include funds raised for local charities in January and June, or funds raised by the Royal Canadian Legion in November.) |

## *Social Responsibility*

| | |
|---|---|
| 1,123,703 | Number of customers challenged for proof of age or sobriety by LCBO staff |
| 69,949 | Number refused service |
| 4,394 | Number of BYID tamper-resistant identification cards issued by the LCBO |
| 24,015 | Total number of BYID cards issued as of March 31, 2003 |

## *Quality Assurance*

| | |
|---|---|
| 343,289 | Number of product tests carried out by LCBO's Quality Assurance laboratory |
| 1,098 | Number of products rejected by Quality Assurance for health concerns, consumer safety issues and other quality control problems |
| 355 | Number of seized products tested for enforcement purposes by Quality Assurance |
| 4 | Number of product recalls issued by Quality Assurance |

LCBO

# ANNUAL REPORT 2003–04

## BREAKING $1 BILLION



*How the LCBO transferred its first dividend of more than $1 billion to the government of Ontario*

## THE ANNUAL REPORT

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Economic Development and Trade. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.



## MEMBERS OF THE LCBO BOARD



## LETTER OF TRANSMITTAL

The Hon. Joseph Cordiano
*Minister of Economic Development and Trade*

Dear Minister,

I have the honour to present you with the 2003–04 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
*Chair and Chief Executive Officer*

## CREDITS


The LCBO wishes to thank the Office of the Provincial Auditor and the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2003–04.

# LCBO

Discover the World



**Andrew S. Brandt**
Chair & Chief Executive Officer

October 2004

Dear LCBO Stakeholder:

Entitled *Breaking $1 Billion*, our Annual Report for 2003-04 describes how the LCBO transferred $1.04 billion to the province of Ontario – its ninth straight record dividend and first ever of more than one billion dollars. This amount is $65 million more than last year and $455 million more than a decade earlier – and does not include taxes. The LCBO's total contribution to the Ontario government, including provincial sales tax, was $1.35 billion.

We continued to outperform most comparable provincial liquor jurisdictions in volume and revenue growth. We also outperformed the Ontario and Canadian retail sectors as a whole.

Key factors behind this success include: knowledgeable and helpful staff; well-planned retail capital investments that provide a solid return; ongoing improvements in customer service and marketing; enhanced efficiency and productivity; growing customer appreciation of premium products; reductions in excess inventory; collaborative planning with suppliers that has contributed, along with other measures, to improved product flow; and an accounting change, made by the provincial government at the request of the Brewers of Ontario, that saw $39 million in domestic beer revenues for beer sold at the LCBO recorded on the LCBO's account, rather than submitted directly to the Alcohol and Gaming Commission of Ontario

The year was not without its challenges: sales to licensees were adversely affected by the SARS scares and other events and their resulting decline in tourism; freight costs rose due to higher fuel costs and labour unrest in the rail and shipping industries; and while our performance improved over last year by most measures, we did not meet some of the aggressive targets set at the end of last year.

The 2003-04 Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to meet and exceed the expectations of its stakeholders. It highlights our many social responsibility initiatives to promote responsible drinking and prevent impaired driving; our efforts to help grow Ontario wine sales; and the work our respected Quality Assurance department does to help ensure products are safe to drink.

With the support of the government, an involved and committed Board, a well-trained, motivated workforce and our suppliers, we expect to transfer a tenth record dividend of $1.065 billion in fiscal 2004-05 while continuing to improve customer service, financial performance, return on capital investments, operational efficiency and social responsibility.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

55 Lake Shore Blvd. East, Toronto, Ontario M5E 1A4 Tel 416.864.2453 Fax 416.864.2476 www.lcbo.com

# MESSAGE FROM THE MINISTER

**Minister of Economic Development and Trade**

Hearst Block, Queen's Park
900 Bay Street
Toronto ON M7A 2E1
Telephone: (416) 325-6900
Facsimile: (416) 325-6918
www.ontariocanada.com
M2004-0901-44697

**Ministre du Développement économique et du Commerce**

Édifice Hearst, Queen's Park
900, rue Bay
Toronto ON M7A 2E1
Téléphone: (416) 325-6900
Télécopieur : (416) 325-6918
www.ontariocanada.com

Ontario

**Message from the Honourable Joseph Cordiano**

**Minister of Economic Development and Trade and Minister responsible for the Liquor Control Board of Ontario (LCBO)**

As Minister of Economic Development and Trade, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2003-04.

As an arm's-length agency of the provincial government, the LCBO must meet not only the government's expectations but also those of its customers and shareholders, the citizens of Ontario.

This report highlights the LCBO's efforts in 2003-04 to meet those expectations by:

- delivering a dividend of $1.04 billion, excluding taxes, to support critical government programs, services and priorities such as health care and education;
- continuing its leadership role in promoting social responsibility;
- providing improved service and product selection to customers;
- supporting the efforts of the Ontario wine industry to build market share; and,
- working more closely with suppliers to improve the efficiency and cost-effectiveness of its supply chain system.

That being said, the government has made it a priority to ensure that all its public assets, including the LCBO, are both transparent and accountable to the people of Ontario. That is why in the 2004 Budget, the government announced that a review of all major Provincial assets, including the LCBO, will be conducted to assess whether or not Ontarians receive the maximum benefit from this significant Crown agency.

As the Minister responsible, I will work closely with the LCBO Board, employees and trade partners – along with my staff and colleagues in government, including the Ministry of Finance – to ensure the LCBO continues to meet and exceed the expectations of the taxpayers of Ontario and other stakeholders.

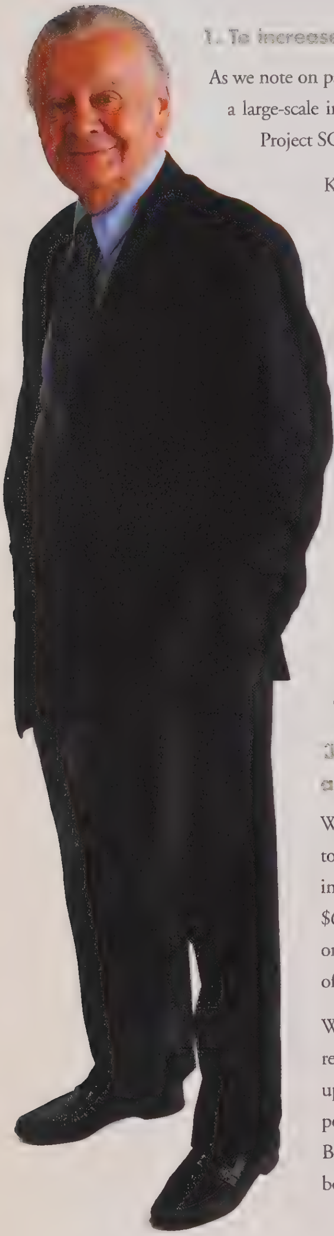
Sincerely,

Joseph Cordiano

# MESSAGE FROM THE CHAIR AND CEO

Fiscal 2003-04 marked the first year of the LCBO's new five-year strategic plan, which took effect April 1, 2003. The plan provides the LCBO with a new brand vision: *Discover the World.* Its ultimate goal is to better equip our employees to take customers on engaging and enjoyable journeys of discovery, demystifying the products we sell and helping customers make more informed purchases.

Six key objectives were detailed in the plan. I'd like to describe the progress we made towards each in fiscal 2003-04.



### 1. To increase customer satisfaction

As we note on page 29, customer satisfaction hit record heights in fiscal 2003-04, as measured by three different sources: a large-scale independent Customer Tracking Study conducted twice a year; a smaller-scale Web-based study called Project SCORE conducted by the LCBO 13 times a year; and an ongoing professional Mystery Shopper program.

Key determinants of customer satisfaction are staff, shopping environments and product selection. The survey results indicate the steps we have taken to improve each of these elements contributed to the rise in customer satisfaction.

New and renovated stores (page 30) offer an informative shopping experience in appealing, convenient locations with plenty of parking; our well-trained staff are fully equipped to offer responsible and helpful advice on beverage alcohol and food matching; and improvements in product flow (page 38) have helped ensure we have the right products in the right place at the right time, while minimizing unnecessary investments in inventory.

### 2. To promote the responsible use of beverage alcohol

The LCBO takes its social responsibility (SR) mandate very seriously. Every retail employee takes a mandatory course in responsible service, helping them learn how to handle challenges and, when necessary, refuse service to someone who is intoxicated or cannot prove they are of legal drinking age. As you'll read on page 40, we challenged more than 1.2 million people in our stores in fiscal 2003-04, and refused nearly 70,000. We also promoted responsibility in many other ways, including advertising campaigns launched in partnership with MADD Canada, and messages that promoted moderate consumption of beverage alcohol as part of a balanced lifestyle.

### 3. To maximize returns to the people of Ontario by generating a total of $5.14 billion in dividends over the next five years (2003-08)

We more than met this goal in fiscal 2003-04, transferring a ninth straight record dividend of $1.04 billion to the government to help reduce Ontario's deficit and pay for hospitals, schools, roads and other important government social programs, services and major capital projects. That's an increase of $65 million over the year before and does not include any provincial, federal or municipal taxes. As we note on page 32, when combined with taxes, that combined figure was approximately $1.8 billion, $1.35 billion of which went to Ontario.

We achieved this increase by improving product flow and reducing net inventory; by building and renovating stores in a way that provides a solid return on our capital investments; by trading more customers up to premium products through education and awareness initiatives; by controlling costs wherever possible; and through an accounting change made by the government of Ontario, at the request of the Brewers of Canada, that saw domestic beer revenues for beer sold at the LCBO recorded on the LCBO's books, rather than submitted directly to the Alcohol and Gaming Commission of Ontario.

### 4. To develop and improve collaborative relationships with suppliers

A number of new initiatives were launched in fiscal 2003-04 to improve the way we collaborate with suppliers and ensure a continuous stream of products to meet the LCBO's requirements. Among these were a new Web site that provides agents and suppliers with information and forms they need to work effectively with the LCBO; a new joint performance scorecard that measures the performance of the LCBO and key vendors against agreed-upon standards; and a Collaborative Planning, Forecasting and Replenishment (CPFR) system that combines sales forecasts developed jointly by the LCBO, suppliers and agents, and tracks and monitors forecasts versus actual sales.

Working together, the LCBO and its suppliers are reducing the lead times needed to import products from overseas, reducing stock-outs, achieving cost savings and improving customer service. For details, please see page 38.

### 5. To promote the growth of Ontario wine sales

As we note on page 26, the LCBO works with the Ontario wine industry and government to build Ontario wines' market share. The LCBO and our industry partners set an aggressive volume growth target of 6.0 per cent for Ontario wine sales in fiscal 2003-04 and surpassed it. Sales grew by 8.5 per cent in dollars and 6.4 per cent in litres, well above the increases recorded the year before (4.1 and 2.1 respectively). We increased the number of Ontario wines we offer; educated employees and customers alike about their quality, value and versatility; highlighted Ontario wines in store displays and *FOOD & DRINK*; and featured Ontario wines in numerous promotions.

### 6. To increase employee satisfaction

The LCBO undertook a number of steps in fiscal 2003-04 to better engage its employees and help them develop the skills they need to be effective leaders. In June 2003, we conducted a confidential Employee Attitude Survey – the third in a biennial series – to gauge employee satisfaction and determine where the LCBO could improve as an employer. More than two-thirds of employees responded – an excellent rate of return – and the LCBO shared the results with all employees. From a management perspective, the survey results were positive in many respects. They showed, for example, that most employees are proud to work for the LCBO, and that they thought the LCBO was doing a better job in such key areas as: managing corporate change; product knowledge training; supervisory guidance; management's understanding of employees' learning and development needs; and compensation. But while job satisfaction remains higher at the LCBO than at many other employers, it did decline somewhat since the last survey in 2001. To address this decline, we launched a number of initiatives, including leadership development conferences and workshops; an Intranet Web site to help employees develop competencies and skills specific to LCBO leadership positions; and a pilot program undertaken with our union to resolve more grievances internally, rather than having them proceed to more costly formal stages.

There are many more initiatives you'll read about in this annual report to help you assess how well the LCBO met its objectives in fiscal 2003-04, and how prepared it is to meet the challenges of the marketplace in the remaining four years of the plan.

To be sure, there were unique challenges in fiscal 2003-04, not least of which was the downturn in Ontario tourism due to the SARS scares; this and other unforeseeable events had a severe effect on our sales to licensees and duty-free outlets. Other challenges are more endemic: consumer tastes continue to shift to lower-margin products such as beer, wine and coolers, and away from the spirit products that used to contribute as much as 60 per cent of our margin dollars (that figure is now closer to 48 per cent). Nonetheless, I feel the LCBO is well-positioned to meet these and any challenges in the years ahead. In the matter of spirits, for example, we have staged a number of highly successful promotions to draw customers to the category (page 20) and will continue to work with trade partners to build on this success.

We have a highly trained staff that has adapted well to the many changes we have made in recent years to the way we buy and sell products; a seasoned senior management team, led by our very capable President and COO, Bob Peter; a knowledgeable Board that supervises our business affairs and ensures we meet the highest standards of corporate governance; and a supportive Ministry of Economic Development and Trade that understands and values the contributions the LCBO makes to the economic and social fabric of Ontario.

We have a well-considered strategic plan and have demonstrated in its first year that we are more than capable of delivering on its goals and objectives. The government, public, Board and management expect nothing less from the employees of the LCBO in fiscal 2004-05.

Andrew S. Brandt
*Chair and Chief Executive Officer*
*Toronto, Ontario*
*August 2004*

# MESSAGE FROM THE PRESIDENT AND COO

When I joined the LCBO in 2001, I took over operational responsibility for a government enterprise that in many ways had already transformed and improved itself.

But in retail – as in most other business sectors – the job of improving the organization is never done. No matter how much progress has been made, there is always more to do to find new efficiencies, improve productivity and profitability and enhance customer service and shareholder value.

The LCBO, in my view, still had room to improve, especially in the way products flowed from suppliers to our store shelves.

Over the last three years, we have streamlined our procedures in this area considerably (page 38). We have worked with suppliers and agents to improve the way product moves through our system, As a result, our stores are well-stocked – but not overstocked – with the brands customers favour most.

We have also worked to contain costs: our expense-to-net-sales ratio declined from 16.7 per cent last year to 16.4 per cent this year. While this was not as good as planned – our forecast was 16.2 per cent – we will continue to set aggressive targets in this area and strive to meet or beat them.

We continued to invest in our store network in fiscal 2003-04, focusing on adding stores in underserviced, growing markets, as well as renovating, relocating and upgrading stores to bring them up to current corporate standards. In the majority of cases, we experienced solid returns both in terms of customer satisfaction (page 28) and return on investment (page 30).

The LCBO's new brand vision, *Discover the World*, calls for its employees to engage our customers as never before. To do that, LCBO managers must fully engage their own employees to ensure they understand and support our strategic and business goals, and embrace their roles in achieving them.

Accordingly, we launched several initiatives this fiscal year to strengthen leadership development.

For example, we held our first-ever All Managers Conference, where 750 managers heard first-hand the goals and objectives of our 2003-08 strategic plan and acquired the tools they needed to roll it out to their teams. Another All Managers Conference is scheduled for November 2004.

We also held leadership development conferences and workshops to help managers across the province better understand their own leadership styles and improve the way they communicate with employees and recognize their contributions to the LCBO's success.

If every LCBO employee comes to work ready to pitch in, have fun and make a difference, our goal of engaging our customers in a voyage of discovery will be well within reach.

As President and COO, I will continue to lead our efforts in these areas to the best of my ability, while doing my utmost to ensure the LCBO is well prepared to take advantage of emerging opportunities and deal with any business challenges that may arise.

Bob Peter
*President and Chief Operating Officer*
*Toronto, Ontario*
*August 2004*

# CORPORATE GOVERNANCE

## Serving our customers and stakeholders

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. Regulatory responsibility for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery – previously held by the LCBO – was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties
- maximize dividends to the government of Ontario
- enhance the LCBO's value to the government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

As an operational enterprise of the provincial government, we are not required to disclose our corporate governance practices, as are companies listed on the Toronto Stock Exchange. We believe, however, that effective corporate governance and accountability are essential to fulfilling our mandate and have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Economic Development and Trade
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through orders-in-council, on the recommendation of the Premier and Minister of Economic Development and Trade. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes education about its business operations, current strategies and issues, including visits to LCBO facilities. New Members also meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not use their positions for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

## The strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see page 16.

## Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management
- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

## Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998 (updated October 2000), the Board approved a new Code of Business Conduct, with policies for: conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## Health and safety

The Board approves an annual Health and Safety policy and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues.

## Store Planning and Development Committee

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board.

## Listings Appeals Committee

The LCBO has a Listings Appeals Committee which reviews appeals of denials of listing applications and decisions as to products that are delisted from sale through the LCBO.

## Governance of the LCBO differs from private-sector corporations

In public companies, Boards of Directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes the appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

## Accountability

The LCBO is held accountable by the government and people of Ontario in a number of ways, including:

- its Annual Report, tabled in the Provincial Legislature and available for all Ontarians to review, either in print or online at *www.lcbo.com*
- annual audits of LCBO financial statements by the Office of the Provincial Auditor
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- statutory reporting requirements under the *Liquor Control Act* to the Minister of Economic Development and Trade and the Minister of Finance
- working with the government to ensure appropriate and adequate accountability provisions are in place between the Ministry of Economic Development and Trade and the LCBO, including reporting requirements for the annual financial plan, capital plan and multi-year strategic plan
- compliance with Management Board's Agency Accountability Directives.

# BEYOND THE NUMBERS 2003-04

## Management Discussion and Analysis of Operations

Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government operational enterprise, LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

**Senior Management Team 2003-04**

1 Jackie Bonic
*VP, Store Development & Real Estate*

2 Alex Browning
*Senior VP, Finance & Administration*

3 Tamara Burns
*VP, Merchandising*

4 Nancy Cardinal
*VP, Marketing Communications*

5 Bob Downey
*Senior VP, Sales & Marketing*

6 Roy Ecker
*Senior VP, Retail Operations*

7 Mary Fitzpatrick
*Senior VP, General Counsel & Corp. Sec.*

8 Murray Kane
*Senior VP, Human Resources*

*Continued page 11*

### HIGHLIGHTS

(value in $000s)

| | 2002-03 | 2003-04 |
|---|---|---|
| Dividend to government | $975,000 | $1,040,000 |
| Per cent increase | 7.7 | 6.7 |
| Net sales and other income | $3,119,240 | $3,320,681 |
| Per cent increase | 6.1 | 6.5 |
| Operating expenses | $525,959 | $548,778 |
| Per cent increase | 7.4 | 4.3 |
| Net Income | $939,542 | $1,045,428 |
| Per cent increase | 2.0 | 11.3 |

## Dividend increases

We transferred a record $1.04-billion dividend to government in 2003-04, excluding all taxes. That's a $65-million increase over last year and our first billion-dollar transfer ever ($39 million of this increase was funded by the accounting change that saw domestic beer revenues for beer sold at the LCBO recorded on the LCBO's books, rather than submitted directly to the Alcohol and Gaming Commission of Ontario). It was the tenth straight year we've increased our dividend and our ninth straight record year.

The following table gives a 10-year history of LCBO dividends paid to the province of Ontario.

| DIVIDEND | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($000,000s) | $630 | $680 | $730 | $745 | $780 | $800 | $850 | $905 | $975 | $1,040 |

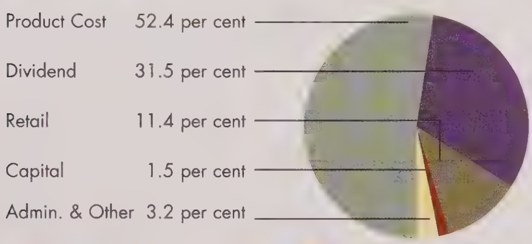
The dividend has risen steadily in the past decade. Since 1994-95, the dividend has grown by 65.1 per cent or $410 million.

## Government revenue disbursement

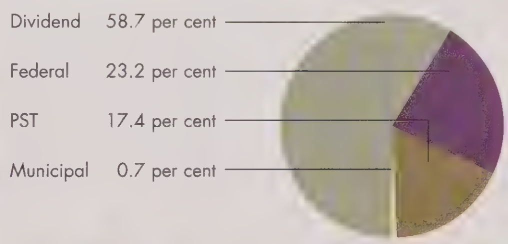
The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $308 million in 2003-04. If you combine the dividend and the PST we collected, the LCBO gave the government of Ontario a total of $1.35 billion, which is 6.7 per cent more than last year. This is the sixth straight year the LCBO has broken the billion-dollar mark when dividend and PST are combined. The LCBO also remitted $103.5 million to the federal government in GST and $12.3 million in property taxes to municipal governments.

These charts show the breakdown of $1 in net sales and how LCBO profits are shared between various levels of government.

### BREAKDOWN OF $1 IN NET SALES




### LCBO PAYMENTS TO GOVERNMENT




## Robust sales growth

Despite Ontario's sluggish economy, LCBO's net sales grew by $200 million to $3.3 billion, a 6.5 per cent increase over fiscal 2002-03, just missing the sales growth target set at the end of last year by 0.4 per cent.

The LCBO's sales have grown over the last five years by 30.6 per cent in volume and by 30.2 per cent in value. Of all Canadian liquor jurisdictions, only Quebec surpassed Ontario in terms of growth over the last five years. By comparison, SAQ's sales volume grew by 82.3 per cent while dollar sales grew by 47.3 per cent.

Total retail sector sales in Canada grew 3.1 per cent between 2002-03 and 2003-04. According to Statistics Canada, Ontario underperformed the national average with retail sales growing by 2.8 per cent. LCBO was able to grow sales by 6.5 per cent, surpassing both the national retail sales growth and Ontario's average retail sales growth.

## Growth exceeds plan in three out of four regions

Three of the four LCBO retail regions bettered the budgeted growth rates for net sales in fiscal 2003-04, the exception being the Central Region. The following chart shows how each region fared compared both to plan and the year before.

### REGIONAL SALES GROWTH

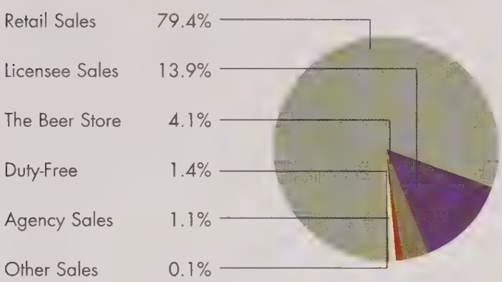
| | vs. Plan | vs. Last Year |
|---|---|---|
| Northern Region | +2.0 per cent | +4.4 per cent |
| Eastern Region | +0.5 per cent | +5.9 per cent |
| Central Region | -0.6 per cent | +7.8 per cent |
| Western Region | +0.6 per cent | +6.2 per cent |

## Retail sales continue to be strong

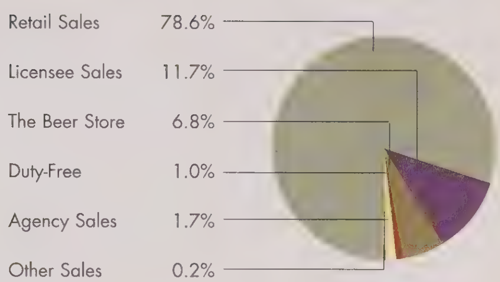
LCBO retail sales, which we define as sales to home consumers, grew by 6.7 per cent over last year and accounted for 78.6 per cent of the LCBO's total net sales, amounting to $2.59 billion. Last year, they grew by 5.0 per cent over the year before and, at $2.43 billion, accounted for 78.5 per cent of total net sales.

Because of the continuing growth in consumer taste for imported beer, sales to The Beer Store increased by 14.3 per cent. These sales now account for 6.8 per cent of total LCBO net sales, slightly up from 6.4 per cent last year.

## BREAKDOWN OF LCBO SALES 1999–2000




## BREAKDOWN OF LCBO SALES 2003–04




Weakness in the tourism industry, resulting mainly from an economic slowdown in the United States and fallout from the SARS outbreak in Toronto during spring 2003, dampened sales through the licensee and duty-free channels. Licensee sales accounted for 11.7 per cent of total net sales in fiscal 2003-04, down from 12.5 per cent. In terms of actual sales they were flat to last year and below plan by 3.5 per cent. Sales to duty-free operators accounted for 1.0 per cent of total net sales, which is slightly less than last year's 1.2 per cent. Actual sales fell by 13.0 per cent and were below plan by 17.1 per cent. Sales to agency stores increased from 1.4 per cent of total sales to 1.7 per cent, due to a 26-store expansion in the network, which serves rural communities that do not have a large enough population base to support an LCBO or Beer Store.

Growth of Ontario wineries' direct delivery sales of VQA products to licensees has begun to slow down after four years of double-digit growth. In fiscal 2003-04, VQA direct delivery by Ontario wineries increased in volume by 8.4 per cent, while LCBO VQA wine sales to licensees fell by 12.5 per cent. In 2003-04, direct delivery of VQA products represented 13.8 per cent of the total volume of the licensee market for wine, compared to 13.2 per cent in 2002-03.

Combined, these wholesale sales represented 21.4 per cent of total LCBO net sales, up from 20.6 per cent five years ago.

9 Hugh Kelly
*Senior VP, Information Technology*

10 Bill Kennedy
*Executive Director, Corporate Communications*

11 Gerry Ker
*Executive Director, Corporate Policy*

12 Ian Martin
*Senior VP, Logistics*

13 Barry O'Brien
*Director, Corporate Affairs*

14 Dr. George Soleas
*VP, Quality Assurance*

15 Shelley Sutton
*Director, Strategic Planning*

16 Tom Wilson
*VP, VINTAGES*

## LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store, Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As of March 31, 2004, there were 1,670 outlets selling alcohol in Ontario.

In fiscal 2003-04, the LCBO opened 26 new agency stores in smaller communities throughout Ontario. The agency store program is designed to improve beverage alcohol service for residents and visitors in rural areas and smaller communities, while maintaining the LCBO's social responsibility standards. It also helps stimulate local economies by increasing employment opportunities for local residents and broadens the host community's business base while improving LCBO revenues.

Here is what the market looked like on March 31, 2004 (percentages have been rounded):

- 598 LCBO stores (35.8 per cent of all outlets)
- 445 Beer Stores (26.7 per cent of all outlets)
- 390 Ontario winery retail stores (23.4 per cent of all outlets)
- 181 agency stores (10.8 per cent of all outlets)
- 39 on-site brewery stores (2.3 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 3 airport duty-free stores (0.2 per cent of all outlets)

* If you combine the LCBO's 598 stores and Ontario's 181 agency stores, the share of outlets is approximately 46.6 per cent.

## Changes in market share

The total Ontario beverage alcohol marketplace amounted to $8.0 billion in gross sales in 2003-04. The LCBO's market share by value has increased from 45.5 per cent in 2002-03 to 47.8 per cent in 2003-04. Winery retail stores sales grew by 4.6 per cent, and increased market share to 2.4 per cent. The Beer Store's market share increased in 2003-04, from 32.4 per cent to 32.8 per cent.

## Other legal sales

Other legal sales, such as cross-border and brew pubs, declined by 30.2 per cent from fiscal 2002-03 and the market share for these channels declined from 13.7 per cent in 2002-03 to 11.1 per cent.

## Illegal competition

The estimated share of the illegal market in Ontario decreased slightly from 6.1 per cent in 2002-03 to 5.9 per cent in 2003-04. This illicit channel is estimated to have redirected revenues of more than $443 million, down from $455 million last year.

# THE INCOME STATEMENT

## Net income

Net income for fiscal 2003-04 was on target at $1.045 billion – $105.9 million, or 11.3 per cent, higher than last year.

The net-income-to-net-sales ratio was 31.6 per cent, surpassing the 2003-04 target of 31.1 per cent and higher than last year's ratio of 30.3 per cent.

Our expense-to-net-sales ratio slightly missed expectations. It was originally forecast at 16.2 per cent and came in at 16.4 per cent in fiscal 2003-04. More detail is provided in the section on productivity ratios.

In spite of the sluggish economy, our net sales grew 6.5 per cent, just missing the target of 6.9 per cent set at the end of last year.

## Gross margin

Gross margin grew a healthy $127.5 million to $1.57 billion in fiscal 2003-04. This exceeded the planned target by 1.1 per cent.

Gross margin as a percentage of net sales for 2003-04 was 47.6 per cent, above both last year's value of 46.6 per cent and this year's target of 46.9 per cent.

Gross margin had declined over the past years due to a shift in consumer tastes away from higher-margin products such as spirits toward lower-margin beers, coolers and wines. This trend began to reverse in 2003-04, due to lower sales of coolers and beer during the cold, wet spring, and to successful promotions for spirits and wines. The increase in the gross margin also reflects the transfer of the Alcohol and Gaming Commission of Ontario (AGCO) Ontario beer fees to the LCBO, as explained on page 2.

For every dollar of net sales, our gross margin return on spirits is $0.56. On wine, it is $0.48 and on beer, $0.33. Beer and wine now represent 54 per cent of total net sales, up from 53 per cent last year and 49 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever-greater proportion of our sales dollars come from the sale of lower-margin product lines.

## Productivity ratios monitored

To track expenses and see where improvements are needed, LCBO sets targets for many productivity ratios each year. For example, the store-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining store-salary-to-sales ratio means that staff are becoming more productive.

## Retail productivity

The LCBO has consistently improved its retail productivity ratios year over year. In fiscal 2003-04, we once again performed better than the previous year, but were only able to meet one of seven aggressive targets set at the end of fiscal 2002-03.

**Store salary to sales:** At 7.2 per cent, this ratio improved over last year (7.3 per cent) but was higher than our planned target of 6.9 per cent.

**Store expenses as a percentage of sales:** At 10.4 per cent, this ratio remained flat to 2002-03 and 2001-02, but was slightly higher than the planned target of 10.0 per cent due to higher controllable labour costs.

**Store salary per unit sold:** At $0.78, this ratio was flat to last year and well below the previous three-year average of $0.84, but higher salary costs resulted in it coming in $0.05 over target.

**Store expenses per unit sold:** Came in at $1.14, above the target of $1.06.

**Unit sales per hour:** At 32.2, this ratio improved over last year's figure of 31.3, but missed the target of 35.5.

**Sales per customer:** Consumers were spending more this year ($29.38) than last year ($28.51), but marginally below the target of $29.43.

**Sales per square foot:** At $1,800, sales per square foot improved significantly over last year ($1,755) and against plan ($1,762).

## RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

| | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 |
|---|---|---|---|---|---|
| Store salary to sales | 7.6% | 7.9% | 7.4% | 7.3% | 7.2% |
| Store expenses as percentage of sales | 10.5% | 11.0% | 10.4% | 10.4% | 10.4% |
| Store salary per unit sold | $0.84 | $0.87 | $0.80 | $0.78 | $0.78 |
| Store expenses per unit sold | $1.17 | $1.22 | $1.13 | $1.11 | $1.14 |
| Unit sales per hour | 25.7 | 25.5 | 28.6 | 31.3 | 32.2 |
| Sales per customer | $27.19 | $27.86 | $28.10 | $28.51 | $29.38 |
| Sales per square foot | $1,674 | $1,693 | $1,752 | $1,755 | $1,800 |

Note: Unit sales per hour refers to the average number of units sold in LCBO stores per operating hour.

### Logistics productivity

The logistics side of the business did not achieve all its productivity goals this year, meeting two of seven targets. Higher than expected expenses, particularly in the areas of compensation, rent, utilities, breakage and outbound freight led to this result.

**Warehouse salary cost per case:** At $0.82, this year's ratio was lower than last year but missed the target of $0.80.

**Warehouse cost per case:** At $1.03 per case, this ratio was 6.4 per cent lower than last year but missed the target of $1.00.

**Logistics cases per hour:** This ratio beat the target of 63, coming in at 64 cases per hour.

**Logistics cost per case handled:** At $0.62 per case handled, this ratio was lower than last year by $0.02 per case, but missed the target of $0.61 by one cent.

**Freight expense per case:** Increased again over last year's value of $1.26 and missed the target of $1.28, coming in at $1.42 per case.

**Inbound freight as a percentage of sales:** Fuel costs remained high this year which led to this ratio coming in at 2.5 per cent, above the target (2.1 per cent) and last year (2.2 per cent).

**Outbound freight as a percentage of sales:** Met its target by coming in at 0.7 per cent.

## LOGISTICS – FINANCIAL AND OPERATING HIGHLIGHTS

| | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 |
|---|---|---|---|---|---|
| Warehouse salary cost per case | $0.75 | $0.76 | $0.77 | $0.83 | $0.82 |
| Warehouse cost per case | $0.98 | $0.95 | $1.00 | $1.10 | $1.03 |
| Logistics cases per hour | 62 | 64 | 64 | 66 | 64 |
| Logistics cost per case handled | $0.59 | $0.57 | $0.59 | $0.64 | $0.62 |
| Freight expense per case | $1.13 | $1.16 | $1.11 | $1.26 | $1.42 |
| Inbound freight as percentage of sales | 2.0% | 2.0% | 1.9% | 2.2% | 2.5% |
| Outbound freight as percentage of sales | 0.6 % | 0.6% | 0.6% | 0.7% | 0.7% |

Note: For certain logistics ratios, the prior years have been restated due to the reclassification of one of our facilities. For logistics cases per hour, the prior years have been restated, as warehouse hours now reflect all hours worked.

### Operating expenses on course

The administrative expense ratio matched the target set for the fiscal year, coming in at 1.4 per cent.

At 16.4 per cent, operating expenses as a percentage of net sales were lower than last year (16.7 per cent), but missed the target of 16.2 per cent [2].

2 This ratio is as per our internal management reporting and thus will not match the ratio in the Financial table on page 44 of the "Financial Overview" section.

# BALANCE SHEET

### Liabilities

Liabilities, consisting of accounts payable and accrued benefit obligations, were up from $299.6 million in 2002-03 to $340.7 million in 2003-04.

### Year-end inventory and turns

Year-end inventory was up from $247.5 million in 2002-03 to $270.2 million in 2003-04. Total inventory turns decreased from 7.5 in 2002-03 to 7.3 in 2003-04, and missed the target of 8.4. The weakness in total inventory turns can be attributed to labour unrest at CN Rail and the Port of Montreal, inbound freight problems, lower-than-expected beer and cooler sales, and sluggish VINTAGES inventory turns this year.

# CHANGES IN OUR FINANCIAL POSITION

### More cash on hand

LCBO's cash position increased from $46.4 million in 2002-03 to $60.7 million at the end of 2003-04.

**CAPITAL EXPENDITURES** (values in $000s, numbers rounded)

| | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 |
|---|---|---|---|---|---|
| Retail | 23,112 | 39,984 | 31,458 | 46,570 | 32,247 |
| Information Technology | 24,895 | 7,375 | 14,259 | 12,758 | 6,877 |
| Logistics | 1,760 | 2,066 | 3,493 | 11,848 | 10,158 |
| Marketing Programs | 2,434 | 1,231 | 1,730 | 1,565 | 1,130 |
| Other Administrative Divisions | 1,463 | 2,409 | 1,347 | 1,265 | 2,139 |
| Systems Improvements | 808 | 2,624 | 3,448 | 1,056 | 882 |
| Total Capital Expenditures | 54,472 | 55,689 | 55,735 | 75,062 | 53,433 |

As part of our five-year strategic plan to help customers *Discover the World*, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards.

Expenditures in logistics in 2003-04 remained higher than in past years because we invested in the expansion of our London warehouse and upgraded other warehouses. The London warehouse nearly doubled in size and more than doubled its storage and throughput capacity, to help alleviate demands on our main Durham warehouse in Whitby.

# LOOKING AHEAD

In fiscal 2004-05 the successful identification and handling of strategic issues in retail and logistics will result in a forecasted net sales increase of 5.7 per cent or $186 million to $3.5 billion.

As we enter the second year of the five-year plan in 2004-05, we continue to recognize and capitalize on opportunities for improvement, with customer service remaining our focal point. The LCBO will support frontline employees by providing training; by providing original marketing programs that capture and convey the essence of our brand vision, *Discover the World*; by continuing to improve store formats, locations and product selection; and by continuing to alleviate unnecessary product handling through door-to-floor and other supply chain improvements, so employees can spend more time serving customers.

Divisional expenses are expected to rise by 5.9 per cent. As was the case last year, this increase is being driven by higher rent, taxes and other expenses; training and labour costs and higher salaries and benefits.

Volume sales are expected to increase by 2.5 per cent next year. The gross margin percentage is expected to increase to 47.8 per cent, owing to lower projected sales of lower-margin beers and coolers. Net income will increase to 31.8 per cent of net sales, rising by 6.0 per cent or $62.3 million, from $1.045 billion to $1.108 billion.

Our product costs as a percentage of net sales are projected to decrease slightly to 52.2 per cent in 2004-05.

Our expense-to-net-sales ratio is forecast to come in at 16.4 per cent in 2004-05. This will be accomplished through strong sales initiatives and continuing expense control.

The LCBO is expected to increase its capital expenditures in 2004-05. Expenditures are budgeted to increase by $5.6 million from $53.4 million to $59.0 million as we continue to open, expand and relocate stores where populations grow. In other markets, the LCBO will upgrade stores.

Our dividend to the government of Ontario is expected to increase for the eleventh consecutive year to $1.065 billion, an increase of $25 million or 2.4 per cent.

# WINES

*VISION: to provide our customers with an exceptional selection of quality wines at affordable and approachable prices*

The Wines Category achieved strong results in 2003-04, growing value sales by 8.1 per cent, one per cent over plan. By volume, sales increased by 5.8 per cent, 0.9 per cent above plan.

Key factors were:

- strong growth of New World and Ontario wines
- increased sales in premium price bands
- ongoing growth in red wine sales.

New World wines (excluding Ontario wines sales, which are recorded separately) were up 14.7 per cent over last year and 5.0 per cent above plan. Leading producers were Australia, along with Chile and South Africa. Australian wine sales grew by 26.3 per cent in dollars, moving it past France into second place behind Ontario among suppliers of table wines available through the Wines Category. Ontario remains in first place with a 27-per-cent market share in dollars, followed by Australia at 18 per cent, Italy and France at 17 per cent each and the U.S. at 7 per cent.

Ontario had an outstanding year, with sales rising by 8.5 per cent in dollars and 6.4 per cent in litres. (For more information, please see page 26.)

Sales of Chilean wines grew by 9.0 per cent in dollars, well above the previous year's growth rate of 5.0 per cent. South African wine sales grew by 30.2 per cent, albeit on a much smaller base (2.2-per-cent market share).

Sales of European wines grew by 3.2 per cent over last year but did not meet the target of 4.8 per cent. Sales of wines from Italy grew by 9.5 per cent, paced by red wines from the central region. Other areas of growth in Europe were Spain and Portugal, whose red wines grew by 37.8 per cent and 18.3 per cent respectively. Sales of French wine were down by 3.0 per cent, due to declining sales of blended table wines.

Value sales grew faster than volume sales, a sign that customers continue to trade up to premium products. The strongest growth, in both litres and dollars, came in higher price bands. Wines priced $10-$12 grew by 17.9 per cent in dollars and 15.2 per cent in litres; wines priced $12-$15 grew by 12.0 per cent in dollars and 9.9 per cent in litres; and wines priced $15-$20 grew by 13.3 per cent in dollars and 12.2 per cent in litres.

By contrast, wines priced $8-$10 grew by 8.4 per cent in dollars and 7.6 per cent in litres, and wines priced under $8 grew by 2.9 per cent in dollars and 2.2 per cent in litres.

Red wine sales grew by 12.4 per cent in dollars and 10.1 per cent in litres; white wines by 4.3 per cent in dollars and 2.0 per cent in litres. For the second straight year, the LCBO sold more red wine than white through the Wines Category: 45 per cent of table wine sales by volume were red; 40 per cent were white.

Other segments within the category:

- Imported fortified wines grew by 0.1 per cent in value and declined by 2.1 per cent in litres. Noteworthy was the significant growth in sales of Port from Portugal (up 6.4 per cent in dollars and 3.8 per cent in litres)
- Imported sparkling wines grew by 3.6 per cent in dollars and 1.0 per cent in litres
- Ontario sparkling wines declined by 1.4 per cent in dollars and 2.3 per cent in litres; Ontario fortified wines increased by 0.8 per cent in dollars but declined by 3.2 per cent in litres
- Flavoured wine drinks (made with wine, carbonated water and fruit flavouring) rose 7.5 per cent in dollars and 7.6 per cent in litres.

## Looking Ahead:

Plans for 2004-05 include:

- increase sales by 8 per cent to $949 million
- increase margin dollars by 6.1 per cent to $467 million
- leverage customer research to develop and test new initiatives that encourage customers to visit more, browse more, try more and learn more in our stores
- continue to support and work with the Ontario wine industry to help key target customers discover their products in our stores
- continue to work with suppliers to improve product forecasting and replenishment systems and maintain optimum inventory levels
- offer customers their favourite premium wines in a greater range of sizes, including 375 mL, 1.5L and 3L options
- enhance selection of gifts for the holiday season and special occasions throughout the year.

# SPIRITS

*VISION: to showcase the mixability, diversity and vitality of spirits, and make spirits the must-serve drink*

Sales in the Spirits Category grew by 4 per cent to a total of $1.3 billion, more than double the growth rate of the previous year and above plan by 1.7 per cent. This was an important accomplishment for a category whose products have the highest margins of any at the LCBO. (Spirits account for just 15.1 per cent of litre sales, but 40.8 per cent of net sales and 48.1 per cent of margin dollars.)

These factors helped spur the growth of spirits in 2003-04:

- two highly successful LCBO promotions – *Shake It Up* and *Whisky Rocks* – boosted overall consumer interest in cocktails, Canadian whisky and other spirits. Both promotions will repeat in 2004-05
- intriguing new flavoured products were well received by consumers, fuelling nearly half of the business unit's incremental growth in 2003-04
- a strong selection of attractive spirit-based gift packs – 79 compared to 67 in 2002-03 – led to a 6.3-per-cent increase in gift sales over last year
- displays made spirits more accessible and appealing to customers, especially women and "Echo Boomers" aged 20-29
- improved inventory flow helped ensure stores had the products customers wanted, when they wanted them – especially during the holiday season.

Greater collaboration with trade partners was a key driver of growth in the Spirits Category. Their input into promotions, and the opportunities they provided to tie on-premise activities to retail initiatives, helped us realize our goals for the year.

All segments within the category grew with the exception of duty-free sales, which declined by 12.9 per cent due to reduced travel between Canada and the U.S. The strongest growth came in two whiskey segments, American (up 12 per cent) and Irish (up 14.3 per cent). Other segments that did well in fiscal 2003-04 include:

- vodka, liqueurs and tequila, all of which grew by 6.7 per cent over the year before
- brandy and Cognac (up by 4.8 per cent)
- rum (up 3.9 per cent)
- Scotch whisky (up 3.1 per cent)
- and Canadian whisky (up 2.3 per cent).

The increase in Canadian whisky was particularly welcome, given its relative importance in the category. About 27 per cent of all spirit sales come from Canadian whisky, while other segments with higher increases, such as Irish and American whiskey, hold much smaller category shares (0.4 per cent and 1.2 per cent respectively).

The highest rates of growth were for premium and deluxe products in higher price bands. These grew by 8.4 per cent ($35-$49.95), 6.9 per cent ($50-$74.95), 9.7 per cent ($75-$99.95) and 6.3 per cent ($100 and up). By contrast, standard products priced between $20 and $34.95 declined by 1.0 per cent.

Imported spirits fared better than domestic products, growing in value by 5.8 per cent and volume by 4.0 per cent (excluding coolers). Domestic spirits increased 2.7 per cent in value and 0.4 per cent in volume (also excluding coolers). However, domestic spirits fared better against plan – up 1.8 per cent in value and 2.2 per cent in volume – than did imported spirits (up 0.8 per cent in value and 1.1 per cent in volume).

## Looking Ahead

The Spirits Category's goals for 2004-05 are:

- to increase sales by $42 million to $1.34 billion
- to increase margin dollars from $748.6 million to $774.8 million
- to attract more consumers to the category and increase shopping frequency and average dollars spent
- to be the first liquor retailer in Canada to market new and innovative spirit products
- to increase incremental sales by maximizing opportunities at checkouts and growing the gift business (66 per cent of consumers make unplanned purchases)
- to attract more new consumers such as women and Echo Boomers of legal drinking age, and educate consumers about the multiple uses of spirits
- to continue to market premium and deluxe products with higher profit margins, while providing a wide range of standard products.

# BEERS & SPECIAL MARKETS

*VISION: to be a performance-driven, profitable business unit, fulfilling the diverse needs of our customers through easy-to-shop layouts, exciting promotions, knowledgeable staff, world-renowned premium beers and Party Zone products*

Beers & Special Markets (B&SM) enjoyed another year of solid growth, with sales rising to $839 million, 7.1 per cent higher than the year before. While this growth was above the corporate trend of 6.6 per cent, it fell short of plan by 4.6 per cent, due to:

- poor spring weather that hampered sales of beers and spirit coolers, which traditionally rise in warmer weather
- SARS, the war in Iraq and other concerns, which led to a decline in tourism and depressed sales to consumers and licensees
- new entries in the cooler market that did not generate as much consumer interest or sales as in past years.

Nonetheless, B&SM retained its 26-per-cent share of sales through the LCBO, up from 19 per cent just five years ago.

Among the factors that spurred this performance were:

- successful beer promotions during the summer and such events as the Super Bowl and St. Patrick's Day
- larger beer and Party Zone sections, and more refrigeration, in new and renovated stores
- improved signage that provided more information about different beer styles
- an ever-improving selection of premium domestic and international beers tailored to our customers' tastes
- a 22-per-cent year-over-year increase in gift pack sales
- a well-received training video designed to improve employees' knowledge of beer.

Five key categories account for 94 per cent of the unit's sales. Here's how they fared in fiscal 2003-04:

**Imported non-U.S. beer:** the largest contributor to beer sales (45.0 per cent), and the fastest growing segment (up 14.8 per cent over the year before). The LCBO offered 140 non-U.S. beers from 38 countries, including 19 countries from which The Beer Store carries no products. Beers from Belgium and Eastern Europe enjoyed the greatest growth.

**Ontario beer:** grew by 7.7 per cent in fiscal 2003-04 and accounted for 39.2 per cent of beer sales. This segment includes popular brands from major producers, as well as craft beers from Ontario microbreweries. Competitive pricing drove strong growth in value brands. Low-carb beers debuted strongly in September 2003 and by fiscal year-end held a one-per-cent share of beer sales.

**U.S. beer:** declined by 8.5 per cent, in part because the popular Busch brand is now produced in Ontario and is therefore considered domestic.

**Out-of-province beer:** grew by 21.9 per cent this fiscal year, largely driven by Moosehead and Alexander Keith's IPA. Other key brands come from regional craft brewers Big Rock, McAuslan and Unibroue.

**Spirit coolers:** grew 0.5 per cent, well below the target of 20.3 per cent, for reasons explained above. Spirit coolers are the second most important category in this business unit, accounting for 17.9 per cent of sales.

Other categories include **Cocktails-to-Go** (down 11.4 per cent); **saké** (up 7.6 per cent); **ciders** (down 5.1 per cent); **Kosher products** (up 27.1 per cent); **non-liquor products** (down 7.9 per cent); and **beer and wine coolers** (down 4.9 per cent).

## Looking Ahead:

Beers & Special Markets plans to grow sales by 4.9 per cent to $879.1 million in fiscal 2004-05, and margin dollars by 8.5 per cent to $322.2 million.

It will do this by:

- further establishing the LCBO as a destination for premium domestic and international beers
- sourcing innovative new products, including gifts, to capitalize on consumer trends
- continuing to engage customers in the unit's highest-spending age group (20-29)
- identifying and training employees in key retail stores who can serve as beer experts
- working with the Brewers of Canada, The Beer Store and major domestic brewers to maximize product flow into the LCBO system
- working with the Ontario Small Brewers Association to better promote members' products and increase sales
- offering more low-carb products to health-conscious consumers
- working with the LCBO's Retail Ethnic Contact Committee to better understand Ontario's diverse communities, particularly those with a rich cultural history of beer-making and consumption.

# VINTAGES

*VISION ... in sales over the ... years by giving consumers ... optimum assortment of fine wines and premium spirits with an intense quality focus at every price point and at every customer touch point*

In fiscal 2003-04, Vintages brought more than 4,250 products to market through retail releases, direct marketing programs and special events – a 37 per cent increase over the year before. Net sales grew by 13.9 per cent to $176 million, well above the 5.7 per cent growth recorded in fiscal 2002-03.

Vintages is primarily a red wine business. In fiscal 2003-04, 64.5 per cent of sales came from red wine; 19.6 per cent from white wine; 5.2 per cent from spirits; 2.9 per cent from Icewine; 2.7 per cent from fortified wine; 2.4 per cent from Champagne; and the remaining 2.8 per cent from other products such as rosé and sparkling wine.

Its largest suppliers are France, Italy, Australia, the U.S. and Canada, followed by New Zealand, Portugal, Chile, Great Britain and Spain.

The core program at Vintages is the Retail Release program, which made up some two-thirds of its net sales ($117 million in fiscal 2003-04). Twice a month, more than a hundred new products in a wide range of price points are sent to approximately 180 selected LCBO stores. Many releases highlight a particular region, subregion, producer or varietal.

Vintages also makes products available through these programs:

**Vintages Essentials:** a core group of approximately 85 world-renowned brands that are continuously available in stores. These proven favourites (with both retail customers and licensees) demonstrate excellent price/quality ratios. Sales of Essentials products were $38 million – 21.6 per cent of Vintages' business – and 28 per cent higher than last year.

**Futures/Pre-arrivals:** futures give customers the opportunity to buy fine wines, including Bordeaux classified growths, before they are bottled, usually at a significant discount. Pre-arrivals allow customers to buy products before they are widely commercialized. Sales in fiscal 2003-04 were $9.7 million – 5.5 per cent of Vintages' business – and 145 per cent higher than last year. (Results vary widely year to year depending on the perceived quality of vintages being offered from different regions.)

**Classics Catalogue:** offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rare selections. Published three times a year, the catalogue accounted for $11.3 million in sales in fiscal 2003-04 – 6.3 per cent of Vintages' business – and 45.5 per cent higher than last year.

**Wines of the Month:** highlights two featured products priced from $15-$22. It's designed to introduce customers to wines that offer exceptional value at little or no risk. Sales this year were $5.5 million – 3.1 per cent of Vintages total business – and 114 per cent higher than last year.

**Auction:** In November 2003, Vintages staged Ontario's second commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. More than 90 per cent of the 1,552 lots on offer were sold, bringing in a total of $2.3 million.

**Events:** more than 4,300 people attended Vintages events and tastings in fiscal 2003-04, a 15 per cent increase over the year before. These ranged from small winemakers' dinners to large-scale tastings where participants could buy on-site the products they tasted. Vintages events generated $1.1 million in sales this year, 10 per cent above the year before.

**VQA Discoveries:** Vintages now features a different VQA wine from Ontario or B.C. eight times a year, priced between $15 and $20. VQA Discoveries had sales of $906,000 this year, 28 per cent higher than last year.

**Virtual Vintages:** a new program launched in fiscal 2003-04, Virtual Vintages allows customers to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. This provides our customers with greater overall selection with no added investment in inventory on our part. Sales in fiscal 2003-04 were $1.6 million.

### Looking Ahead:

Plans for 2004-05 include:

- increase sales by 11.8 per cent to $196.6 million
- increase margin dollars by 12.5 per cent to $85.2 million
- increase focus on premium spirits, particularly single malt whiskies and Cognacs
- highlight one "Vintages Discovery" priced $14-19 in each issue of *Food & Drink* to help customers choose Vintages wines with greater confidence
- Greater participation in LCBO themed promotions, such as the Wines of Ontario in September 2004 and the Wines of France in February 2005
- showcase the seasonal appeal of certain products, such as rosé and spirits in summer, Port in fall and light reds for barbecue season.

# WINES OF ONTARIO

The LCBO, in partnership with the Ontario wine industry, set an aggressive volume growth target of 6.0 per cent for Ontario wine sales in fiscal 2003-04 and surpassed it, thanks to successful LCBO promotions and programs supported by the Ontario wine industry, and a strong collaboration between the LCBO's Sales and Marketing and Retail divisions.

Sales grew by 8.5 per cent in dollars and 6.4 per cent in litres, well above the increases recorded the year before (4.1 and 2.1 respectively). The stronger growth in dollars indicates that customers continue to trade up to more premium brands.

The number of Ontario products available through the LCBO in fiscal 2003-04 increased from 378 to 395, while VQA listings increased from 140 to 148. The VQA designation is awarded to wines, made from 100 per cent Ontario grapes, that meet regulated winemaking and quality standards.

VQA wine sales grew by 12.0 per cent (not including sales through VINTAGES). Their volume share of still Ontario table wines rose from 16.4 per cent to 17.4 per cent.

Non-VQA varietal wines grew by 12.2 per cent in dollars and 11.7 in litres. Non-VQA blended wines grew at a slower rate: 7.0 in dollars and 5.7 per cent in litres. This suggests that customers are trading up from non-VQA blends to varietals as they learn more about wine.

Like wine enthusiasts the world over, Ontario customers are moving from white wines to reds. Sales of VQA reds grew by 19.4 per cent in dollars and 16.1 per cent in litres; whites by 11.5 per cent and 8.7 per cent. Non-VQA red varietals grew by 22.7 per cent in dollars and 22.0 per cent in litres; whites by 16.1 per cent and 16.9 per cent.

The LCBO helped grow Ontario wine sales in a number of ways. These included:

- in-store promotions, such as Discover the World of Ontario Wines
- training programs to build employee awareness and appreciation of the quality, value and versatility of Ontario wines, as well as their selling skills
- feature articles in the LCBO's consumer publication *FOOD & DRINK*
- a Craft Winery Program that helps smaller wineries establish their brands
- an Ontario Wines Superstars program that highlights two VQA wines in stores each month, and a Popular Pick program that highlights one non-VQA varietal each month
- and increased shelf space in stores.

### Looking Ahead:

Plans for 2004-05 include:

- Continue to support the growth of Ontario wines through its annual fall promotion, Ontario Superstars, WOW Leader training, the Craft Winery Program and other measures
- Align LCBO strategies and programs with industry strategies wherever possible
- Maintain a volume growth trend of 6.0 per cent or greater
- Work with VINTAGES to increase sales of premium Ontario table wines and Icewines
- Continue to support the industry to help manage the impacts of smaller crops due to the harsh winters of 2003 and 2004.

*A key goal of the LCBO's five-year strategic plan (2003-08) is to work with the Ontario wine industry and government to build Ontario wines' market share*


InStyle
Find Your Perfect Dress

# CUSTOMER SATISFACTION

LCBO customers are more satisfied than ever with the service they receive in our stores. Three different sources support this conclusion:

- the most recent Customer Tracking Study
- Project SCORE
- the Mystery Shopper program.

The **Customer Tracking Study** is conducted twice a year, in February and August, by the independent firm Léger Marketing. Results are based on in-depth interviews with 2,400 people across Ontario who describe themselves as the primary LCBO customer in their household. They are asked about everything from store ambience and product selection to employee knowledge and social responsibility initiatives.

A record 80 per cent rated their shopping experience as eight or higher on a ten-point scale, compared to 73 per cent in 1998-99, when the study began.

Some of the highest increases were recorded in:

- friendliness and professionalism of staff
- employees' ability to match food and wine
- availability of staff when needed
- appealing store atmospheres
- bright, clean interiors
- attractive signage and displays.

The percentage who said they were dissatisfied with the LCBO barely registered at 0.4 per cent. It was the fifth straight year this measure has declined.

Every four weeks, **Project SCORE** asks 250 randomly selected LCBO customers across the province to rate their satisfaction with our stores, employees, products and services. While not as in-depth as the tracking study, it is considered a highly effective way of continuously monitoring customer satisfaction in every sales period throughout the year.

**Results:**

- satisfaction ranged from 74 to 80 per cent
- dissatisfaction was again extremely low, hovering between two and three per cent.

Professional third-party **Mystery Shoppers** visit larger LCBO stores at least four times a year and smaller ones twice a year.

The average overall score in fiscal 2003-04 was 88.5 per cent, compared to 86.2 in 2002-03.

Average scores were exceptional on such key measures as:

- Store Merchandising and Signage (98.6 per cent)
- Store Appearance and Maintenance (95.7 per cent)
- Store In-Stock Position (96.3 per cent).

On the important measure of how well our employees engage customers, overall scores achieved an impressive increase, from 73.3 per cent last year to 81.4 per cent this year.

**Our conclusions:**

- LCBO employees deliver a consistent level of service throughout the year.
- very few people dislike shopping at the LCBO
- customer satisfaction at the LCBO is not only high, it is increasing.

Independent research shows customers are more satisfied than ever with the service they receive in LCBO stores. Some of the highest increases were recorded in the friendliness and professionalism of employees and their ability to match food and wine.

# UPGRADING THE STORE NETWORK

New and renovated LCBO stores are designed to be bigger, brighter and better located than the stores they replace. This not only increases customer satisfaction in measurable ways, but increases sales that ensure a solid return on LCBO's capital investment.

Retail capital decisions at the LCBO are guided by extensive customer research and market analysis to ensure they meet the needs of urban and rural communities of all sizes, and by rigorous financial analysis. The business case developed for each capital project includes a forecast of incremental expenses and sales – netting out both current sales growth trends and negative impact on sales at nearby stores in the trade area – to ensure the best forecast of the project's true return on investment. Since 2002, all major new capital projects have had to show a projected return on investment of at least 12 per cent to proceed.

Following completion, the actual financial performance of new and relocated stores is reviewed annually and compared to that forecast in the original business case. Thirty-five of 42 LCBO stores opened or relocated during the last five years are performing better than forecast.

In fiscal 2003-04, the LCBO invested $32.2 million in its store network, including maintenance and repairs.

- 16 new and relocated stores opened in Bell's Corners, Brampton, Cambridge, Kitchener, London, Markham, Mississauga, Oakville, Oshawa, Tecumseh, Toronto, Val Caron, Whitby and Woodbridge
- 30 stores received cost-effective makeovers to bring colours, lighting and shelving up to current corporate standards
- in the smaller communities of Beachburg, Courtright, Dunchurch, Hensall, Magnetawan, Plevna, Port Severn and Sundridge, aging trailer stores were replaced by permanent buildings that significantly expanded their shopping area and brand selection
- 26 agency stores – partnerships with private-sector retailers – opened in smaller communities. Ontario had 181 agency stores as of March 31, 2004.

For fiscal 2004-05, renovation, relocation and expansion projects have been approved for Barrie, Bolton, Brampton, Cookstown, Guelph, Kanata, London, Mississauga, Nepean, Pickering, Scarborough, Thunder Bay, Toronto, Unionville, Windsor and Woodstock.

The LCBO will also continue to do cost-effective upgrades throughout the province, to improve as many stores as possible. Between now and the end of 2008, the LCBO plans to spend $75 million to renovate, relocate or build 160 stores.

The LCBO's Store 5 on Queen St. East near Toronto's Beach district was one of 16 stores renovated or relocated in fiscal 2003-04 to offer improved customer service and product selection in more appealing, informative shopping environments. Left to right are Customer Service Representatives (CSRs) Maureen Moreau and Les Ladanyi, Assistant Manager Steve Keen, CSR Michelle Dicks, Manager Jay Harper and CSR James Smith. Retail capital projects at the LCBO are guided by extensive customer research and market analysis to help ensure they meet customers' needs and contribute to improved profitability.


SERVICE
BIÈRE
CESSORIES

# ECONOMIC BENEFITS

As noted in the Management Discussion & Analysis section of this report (page 9), the LCBO transferred a dividend of $1.04 billion to the Ontario government in fiscal 2003-04 – its ninth straight record year. The LCBO's financial contributions didn't end there. In fiscal 2003-04, it also remitted:

- $308 million in Provincial Sales Tax
- $423 million in GST, federal excise taxes, import duties and payments to municipalities in lieu of property taxes.

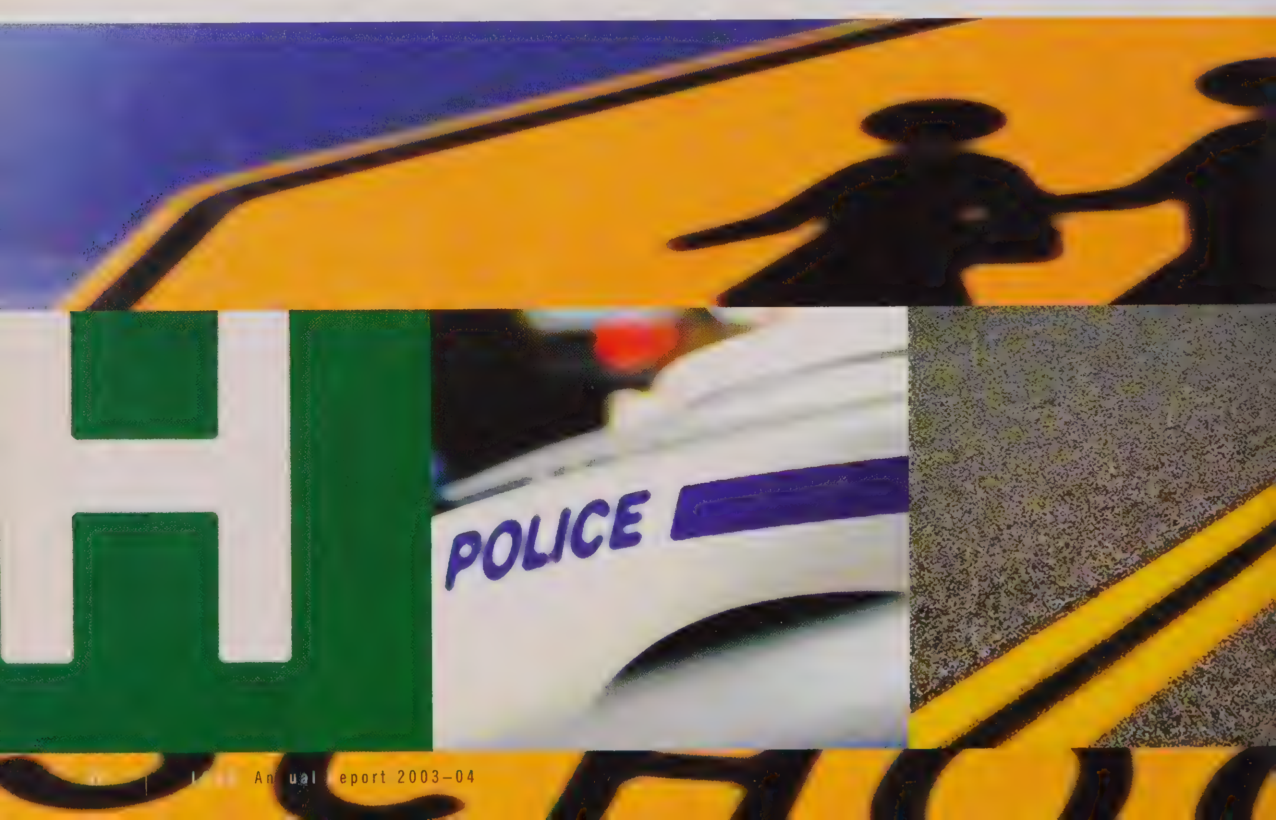
That's a total of $1.8 billion, of which $1.35 billion went to the provincial government to help reduce Ontario's deficit and pay for hospitals, schools, roads and other important government social programs, services and major capital projects.

The Ontario economy also benefits as the LCBO builds new stores or expands and renovates stores and warehouses.

**Example:** In fiscal 2003-04, the LCBO relocated its store in Mississauga's Meadowvale Town Centre. Analysis of the economic benefits using a Statistics Canada model shows the project created 14 construction jobs and generated an estimated $1.5 million for the local economy.

With 15 stores renovated and relocated in fiscal 2003-04, and extensive work done to expand warehouses in London and Whitby, the total number of jobs created during the fiscal year is estimated at 142. An estimated $13.7 million was generated for local economies.

Other industries and suppliers benefit from LCBO's business growth and capital investments as well. These include beverage alcohol suppliers, whose sales tend to increase in new stores, as well as the companies that provide their bottles, labels, packaging and transportation. Logistics and information technology vendors and manufacturers of refrigeration units, fixtures and other store materials also benefit, in turn creating more jobs and spin-off benefits for the Ontario economy.



# AWARDS

Two key determinants of customer satisfaction at the LCBO are appealing store environments and well-trained employees who can provide helpful, knowledgeable service. The LCBO's success in these areas is measured in heightened customer satisfaction, in the return on investment new and renovated stores achieve and in awards won in open competition against other major retailers.

The LCBO added a number of such awards in fiscal 2003-04. These included:

- Retail Council of Canada *Retail Marketing Award* (for the *Shake It Up* 2003 spirits promotion)
- Retail Council of Canada *Canada Post Excellence in Multi-Channel Retailing Award* (for the *Ciao Italia* 2003 promotion).

The LCBO also garnered six awards for its creation of the flagship Summerhill store in the historic North Toronto train station:

- Ontario Association of Architects 2004 *Architectural Excellence Award*
- National Association of Store Fixture Manufacturers *Retail Design Award* and *Store Fixture Award*
- The Institute of Store Planners/Visual Merchandising & Store Design Magazine *First place: Specialty Food Shops*
- *National Post* Design Exchange Awards *Award of Merit (Interiors)*
- International Council of Shopping Centres (ICSC) *Merit Award.*

The LCBO was also recognized with a 2004 Business Excellence Award from the North York Chamber of Commerce for its store in Bayview Village Plaza, Toronto.

The LCBO product-knowledge training video *Shelf Talk: Alsace* won four awards in fiscal 2003-04:

- New York Festivals' International Film and Video Awards *Gold World Medal, Technical Training category*
- U.S. International Film and Video Festival *Gold Camera (Training & Education)*
- International Association of Business Communicators *Ovation Award of Excellence*
- Canadian Corporate Television Association (CCTA) *Special Award of Merit.*

Two other staff-training videos won New York Festivals awards in fiscal 2003-04: one that showed how beer sales contribute to LCBO profits and customer satisfaction and one that explained how to help customers with food-beverage matching. The LCBO's television commercial *Innuendo*, produced in partnership with MADD Canada to fight impaired driving, won a Silver Award at the 2004 Summit Creative Awards competition.

The LCBO has won well over 100 awards for store design, staff development, innovative retailing and communications in the past 10 years. These include some of the most prestigious awards in the retail industry, including the Outstanding Business Achievement Award (2000) from the Ontario Chamber of Commerce and the Retail Council of Canada's Innovative Retailer of the Year (1997 and 1998). It has also won Retail Council of Canada awards for Social Responsibility (1997) and Staff Motivation and Development (1998).

# INTEGRATED MARKETING

LCBO's new brand vision, *Discover the World*, calls on employees to guide customers on a journey of learning and discovery, demystifying the products we sell and taking the perceived risk out of their purchases.

Integrated marketing promotions help bring this vision to life. They ensure a consistent brand image through every point of contact, including in-store signage and displays; advertising; articles in our consumer publication, *FOOD & DRINK*; and the LCBO's Internet site (*www.lcbo.com*).

Major promotions in 2003-04 focused either on a particular country or region or a product category. Working with suppliers, we designed them to capitalize on trends in beverage alcohol and seasonal opportunities, and to give customers the information and tools they need to entertain easily and responsibly.

One of the most successful was *Ciao Italia*, which was honoured in June 2004 with the Canada Post Excellence in Multi-Channel Retailing Award from the Retail Council of Canada.

*Ciao Italia* ran in all LCBO stores from February 3-29, 2004. Its goal was to raise awareness of the quality, value and versatility of Italian wines – the fastest-growing Old World subset of the LCBO's Wines Category – as well as other beverage alcohol products.

The promotion showcased more than 200 Italian wines, as well as fortified wines, brandies, grappas and liqueurs.

Marketing elements included:

- a consumer's wine guide that focused on popular winemaking regions
- free-standing inserts (FSIs) in major urban newspapers, as well as radio commercials and electronic billboard advertising at one of Canada's busiest intersections
- Internet promotion
- consumer tastings
- a contest that gave consumers a chance to win "Six nights under the Tuscan sun"
- and compelling in-store signage, displays and music.

Each component was designed to evoke the warmth, romance and hospitality of Italy.

Sales of Italian wines soared during *Ciao Italia*, thanks to a combination of integrated marketing and collaborative planning between the LCBO and its suppliers that resulted in a strong selection of products and fully stocked inventories to maximize sales opportunities. This helped Italy move past France into third place among Wines Category suppliers. (Ontario remains number one by a wide margin, followed by Australia.)

Volume sales of all Italian wines rose by 27.6 per cent over the same period the year before, while value sales rose by 32 per cent. Both figures beat the targets set for the promotion.

Featured brands rose by 57.6 per cent in volume and 59.5 per cent in value during that same timeframe.

Other integrated LCBO promotions in 2003-04 included *Great Whites, Sizzling Coolers, Party Zone, Shake it Up, Wines of Ontario, Holiday Wrapped Up, Whisky Rocks* and *Taste the World of Beer*.

Together, they helped the LCBO achieve a number of key strategic objectives: increased consumer knowledge and satisfaction; increased profitability due to growth in sales of premium products; growth in sales of Ontario wine; and improved collaboration with suppliers.

A number of the most successful promotions will repeat in 2004-05, including *Shake It Up, Whisky Rocks* and *Holiday Wrapped Up*, along with new ones that focus on red wines, spirit coolers, beers, backyard entertaining, products from France and hot global trends.

Long-range promotional plans such as this help us and our suppliers better co-ordinate marketing efforts and help ensure sufficient supply of products that create interest among consumers and encourage their voyages of discovery at the LCBO.

# QUALITY ASSURANCE

Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's world-renowned Quality Assurance (QA) laboratory.

QA's primary goal is to ensure all products sold by the LCBO are safe to consume, authentic and meet standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations.

Registered under ISO9001:2000 and under ISO/IEC17025, a designation specific to chemistry laboratories, QA's Quality Management System meets the high standards set by the Geneva-based International Organization for Standardization.

Key accomplishments in fiscal 2003-04:

- 367,870 laboratory tests were performed on 15,728 products. Some eight per cent were rejected because they were defective, improperly labelled or did not meet other QA standards
- more than 5,000 products were tasted to ensure they met high standards set by the LCBO and, where applicable, the Vintners Quality Alliance Ontario (VQAO)
- more than 2,100 labels and 500 cartons for new products were reviewed to ensure they complied with government and LCBO standards
- some 300 products were tested on behalf of enforcement agencies to determine whether they had been illegally manufactured or smuggled into Ontario
- turnaround time for processing samples in fiscal 2003-04 was 3.5 days on average, down from five working days in fiscal 2002-03 and 20 working days in 1996-97.

QA performed many other functions for the LCBO and its stakeholders in fiscal 2003-04:

- it supported the VQAO by conducting tastings, packaging reviews, laboratory analyses and quality assurance audits, and by helping members develop and adhere to the industry's technical standards
- it worked with Brock University's Cool Climate Oenology and Viticulture Institute to guide its curriculum and research directions
- in collaboration with suppliers, agents and the Canadian Food Inspection Agency, it continued to build a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

In collaboration with colleagues in the wine industry and academia, Dr. George Soleas, VP of Quality Assurance, continued to conduct and publish research into compounds in wine that might benefit human health, such as antioxidants believed to prevent coronary heart disease and cancer; compounds that cause cork taint; the potential hazards of pesticide residues in grapes and wine; and other issues of interest to grape growers, winemakers and consumers.

# IMPROVING PRODUCT FLOW

To offer customers the best possible service and selection in the most cost-effective way possible, the LCBO undertook a number of initiatives in fiscal 2003-04 to improve the way product flows from suppliers to store shelves. These initiatives were a collaborative effort between a number of LCBO divisions and business units – Finance & Administration, Supply Chain, Sales and Marketing, Logistics, Information Technology and Retail – as well as key suppliers and agents.

These improvements had the intended result of reducing net investment in inventory from $112 million in 2001 to $27 million in 2004, a 77-per-cent reduction in a period of increasing sales and volumes. In fiscal 2003-04 alone, the reduction in net inventory investment was 43 per cent, which enabled the LCBO to improve efficiency and its financial position.

Key accomplishments in 2003-04 fall into three areas:

- Supply Chain
- The Logistics network
- Collaborative forecasting.

## Supply Chain – Store Service Project

Under this ongoing initiative, stores change the way they order and receive stock, implementing best practices to eliminate unnecessary product handling and free staff to better serve customers. (By fiscal year end, some 145 LCBO stores had implemented Supply Chain practices.) The project also helps ensure these stores are stocked with a core assortment of popular products, complemented by a portfolio of products tailored to local consumer tastes. In fiscal 2003-04, average sales growth in Supply Chain stores was two per cent higher than in other LCBO stores: 7.5 per cent vs. 5.5 per cent.

Supply Chain stores also achieved greater reductions in inventory in fiscal 2003-04: an average of 27 per cent, compared to 19 per cent at other LCBO stores. The in-stock position was also slightly higher in Supply Chain stores (91.2 per cent of listed products vs. 90 per cent in other LCBO stores).

Other highlights in fiscal 2003-04 included:

- A new Web site for agents and suppliers, *Trade Resources Online*, which provides much of the information and forms they need to work collaboratively and effectively with the LCBO on product ordering and replenishment. The site will be enhanced over time to provide suppliers with more tools, resources and information they need.
- A new Supplier Alliance Joint Performance Scorecard that measures the performance of the LCBO and key vendors against agreed-upon standards, to help deliver maximum customer satisfaction at competitive costs.
- An improved seasonal inventory build strategy that saw sales during the holiday season increase by four per cent, while total inventory levels dropped by 24 per cent with no negative impact on service levels.

## The Logistics network

LCBO completed a $7-million expansion of its London warehouse that almost doubled its size. It can now serve some 300 LCBO stores and Beer Stores in Western Ontario, an increase of 30 per cent.

- Square footage increased from 250,000 sq. ft. to 490,000 sq. ft.
- Storage capacity increased from five million cases to 12 million cases.
- Output increased by a third, from 20,000 cases per shift to 30,000 cases per shift.
- The number of loading bays increased from 10 to 26.

Work also began on expansion of the LCBO's main Durham warehouse in Whitby, which will increase capacity by 25 per cent. Eleven more shipping doors are being added to improve service to LCBO stores and Beer Stores.

## Collaborative forecasting

In fiscal 2003-04, the LCBO and key suppliers and agents pilot-tested a Collaborative Planning, Forecasting and Replenishment (CPFR) system that combines sales forecasts developed jointly by the LCBO, suppliers and agents, and tracks and monitors forecasts versus actual sales. Its key goal is to ensure a continuous stream of products to meet the LCBO's requirements.

Taking part were 12 agents representing 25 suppliers whose major brands account for about one-quarter of LCBO sales.

Participants used a promotional planning calendar that plots key LCBO displays and promotions, which were planned collaboratively with agents and suppliers, over an 18-month horizon, to help determine when products would need to be replenished.

The goals of the pilot were to:

- better match product flow to promotions and seasonal variations
- reduce the lead times needed to import products from overseas
- reduce stock-outs
- increase inventory turns
- improve customer satisfaction
- and achieve cost savings from operational efficiencies.

Based on positive initial results, the pilot is being expanded to include more agents and suppliers in 2004-05.

# SOCIAL RESPONSIBILITY

As a provincial government enterprise and caring retailer, the LCBO plays a leadership role in promoting the socially responsible use of beverage alcohol, and takes every possible step to help ensure only the right people are served in its stores.

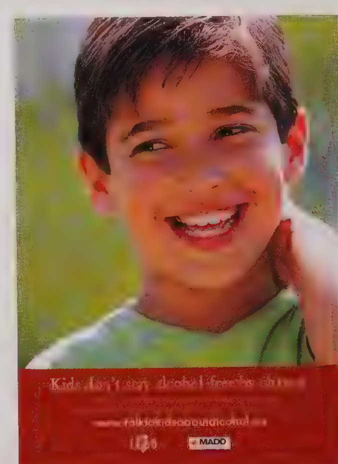
Here are some initiatives the LCBO undertook in fiscal 2003-04 to fulfill this key element of our mandate.

## Challenge and Refusal

- Employees challenged 1.2 million customers who appeared underage or intoxicated, or were believed to be buying alcohol for minors or intoxicated people. That's a seven-per-cent increase over the previous year.
- Nearly 70,000 people were refused service – about 70 per cent of whom appeared underage and could not provide valid ID.
- We issued 3,985 BYID tamper-resistant photo ID cards. Some 28,000 BYID cards have been issued since 1996.

## Promoting responsible consumption

- LCBO published and distributed a number of booklets with tips and information on responsible hosting, including a holiday season guide with non-alcoholic "mocktail" recipes.
- Posters in stores in November and December urged customers to plan ahead and "Leave the car at home" if they planned on drinking.
- An information campaign reminded young people they don't need to drink to have fun on prom night. Elements included in-store posters and tips for students and parents that were available in stores, on the LCBO Web site and via our toll-free Infoline. These materials were sent to all Ontario high schools to help educators inform their students about smart, safe choices.
- In partnership with MADD Canada, we developed and launched a new interactive Web site to help parents talk to pre-teens about alcohol (*www.talktokidsaboutalcohol.com*).
- We supported many school- and community-based initiatives against impaired driving, as well as the year-round provincial Drive SAFE/RIDE program.
- During each LCBO thematic promotion, we promoted social responsibility by posting messages on our corporate Web site and placing cling vinyl signs in stores.



## Advertising

- A new TV commercial, created in partnership with MADD Canada, encouraged people to stop drinking and driving – any way they can. The commercial, called *Innuendo*, was about a woman who took away the car keys of a colleague who intended to drive home from a party after drinking.
- Five ads created for the LCBO's consumer magazine *FOOD & DRINK* featured LCBO employees who embody our commitment to quality, charity, community, customer service and social responsibility.
- All stores received materials to help them place social responsibility ads in local media, to promote responsible use of alcohol and deter impaired driving and underage drinking.

LCBO employees challenged more than 1.2 million would-be customers who appeared underage or intoxicated in fiscal 2003-04 to help ensure only the right people were served in our stores. In this photo, Customer Service Representative Mario Leone of Store 445 in Oakville checks a customer's BYID card to confirm her age. The tamper-resistant cards are produced by the LCBO to help its employees confirm the ages of would-be customers who appear younger than 25.

## Fundraising

The LCBO, its employees and suppliers raised more than $1 million for charity in fiscal 2003-04. Highlights included:

- more than $400,000 collected for MADD Canada and other good causes through donation boxes at checkouts and other in-store campaigns
- $150,000 raised through three *Wine Aid* events to help Ontario's hospitality workers recover from the setbacks of SARS and other blows to the tourism sector
- a record $165,000 raised for the United Way through employee donations and special events
- $130,000 for We Care, to help send children with disabilities to summer camp
- $90,000 for Toronto's Hospital for Sick Children at a golf tournament and other local events
- $70,000 for Camp Oochigeas, which provides summer getaways to kids with cancer
- more than $40,000 for various charities from the sale of compilation CDs at LCBO checkouts.

## Environment

- LCBO contributed $5 million in fiscal 2003-04 (and $25 million since 1998) to help Ontario municipalities cover costs of recycling beverage alcohol containers through the Blue Box Program. We will contribute $10 million more over the next two years.
- We recycle corrugated cardboard, fine paper, polystyrene, bottles, cans, newspapers, batteries, printer cartridges, data tapes and other materials.
- We contribute to non-profit environmental organizations such as the Recycling Council of Ontario and Pollution Probe, and require suppliers to minimize packaging.

# PUBLIC SECTOR DISCLOSURE ACT

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, requires Ontario's public sector organizations to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, LCBO submits the following information for calendar 2003.

Salaries listed may include overtime payments, pay received for acting assignments during the 2003 calendar year; unused Management Compensation Option (MCO) days taken as cash in lieu of days off; or performance bonuses the LCBO pays to help attract and retain the staff it needs to meet its strategic and business objectives.

| Name | Position | Employment Income | Taxable Benefits |
|---|---|---|---|
| Alexopoulos, John | Manager, Retail Accounting | $102,515.58 | $234.90 |
| Araujo, Vic M. | Gen. Mgr., Operations, Durham | $102,671.47 | $234.90 |
| Ashdown, Tony D. | Director, HR Development | $126,081.11 | $269.40 |
| Balarajan, Ponnambalam | Consulting Tech. Systems Specialist | $100,611.05 | $221.98 |
| Bartucci, Ron | Director, Traffic, Customs & Excise | $126,080.57 | $269.40 |
| Bidian, Catalin | Sr. Programmer Analyst | $100,312.10 | $167.16 |
| Blythe, E. B. | Mgr., Financial Quality Assurance | $102,454.79 | $234.90 |
| Bonic, Jacqueline E. | VP, Store Dev. & Real Estate | $155,366.62 | $325.58 |
| Bourre, Don | Director, Eastern Region | $146,808.95 | $2,118.64 |
| Brandt, Andrew S. | Chair & CEO | $139,115.93 | $5,308.00 |
| Browning, J. A. | Sr. VP, Finance & Admin. | $176,926.77 | $13,465.12 |
| Buck, Peter D. | Director, HR Services | $146,809.11 | $307.64 |
| Burns, Tamara L. | VP, Merchandising | $159,607.44 | $339.70 |
| Busby, Michael D. | Database Administrator | $100,500.93 | $204.68 |
| Cardinal, Nancy J. | VP, Marketing Communications | $168,371.77 | $348.66 |
| Chu, Hang-Sun | Sr. Systems Analyst | $106,867.42 | $204.68 |
| Clevely, R. | Director, Central Region | $120,043.73 | $1,723.62 |
| Collins, Robert J. | Business Unit Director | $139,186.29 | $295.11 |
| Davio, R. A. | Manager, Pricing Administration | $112,472.28 | $251.16 |
| Downey, Robert K. | Sr. VP, Sales & Marketing | $175,542.43 | $13,465.12 |
| Dutton, R. A. | Dir., Financial Planning & Dev. | $155,010.74 | $325.58 |
| Ecker, Roy W. | Sr. VP, Retail Operations | $172,950.27 | $13,211.12 |
| Farrell, Michael | Dir., Wholesale Customer Mgmt. | $112,493.99 | $209.08 |
| Fehr, Claudius | Category Manager, Vintages | $103,175.82 | $234.90 |
| Fisher, R.G.* | Director, Western Region | $189,816.25 | $315.96 |
| Fitzpatrick, Mary | Sr. VP, Gen. Counsel & Corp. Sec. | $176,926.77 | $13,465.12 |
| French, Robert G. | District Manager | $102,212.71 | $377.90 |
| Graham-Prentice, Laura | Director, Marketing | $105,476.20 | $237.72 |
| Green, Michael R. | Solicitor | $146,136.44 | $307.64 |
| Harfmann, Ursula | District Manager | $100,501.58 | $534.90 |
| Holloway, Brian | Director, Applications Systems | $141,684.47 | $307.64 |
| Huynh-Liu, My Lan L. | Sr. Systems Analyst | $100,163.05 | $204.68 |
| Jay, David | Systems Manager | $101,855.29 | $234.90 |
| Kalladeen, Nalini | Systems Manager | $101,464.43 | $234.90 |
| Kane, Murray D. | Sr. VP, Human Resources | $176,926.77 | $13,465.12 |
| Kelly, Hugh | Sr. VP, Information Technology | $176,926.77 | $13,465.12 |
| Kennedy, William | Exec. Dir., Corp. Communications | $155,366.62 | $325.58 |
| Ker, J.G. | Exec. Director, Corporate Policy | $155,366.54 | $325.58 |
| Lamantia, M. | Sr. Systems Analyst | $111,231.77 | $204.68 |
| Landy, Randi B. | Business Unit Director | $136,427.04 | $300.04 |
| Le, Nhon T. | Sr. Systems Analyst | $100,898.47 | $204.68 |
| Lee, Susan | Manager, Financial Planning | $103,435.98 | $234.90 |
| Leger, Richard | District Manager | $105,147.37 | $906.90 |
| Liddle, Wayne R.* | District Manager | $139,201.71 | $478.67 |
| Lumsden, Pat | Systems Manager | $101,464.43 | $234.90 |
| Lyons, Carol J. | Controller | $145,271.83 | $307.64 |
| MacGregor, Maralisa | Director, Supply Chain | $146,809.11 | $307.64 |
| Mallett-Thomas, Kate | Business Unit Director | $112,084.33 | $263.72 |
| Manner, Joseph | Mgr., Economic Policy & Planning | $104,138.67 | $234.90 |
| Mardirossian, G. H.* | Mgr., Information Systems Audit | $103,445.15 | $234.90 |
| Marshall, Dave W. | Director, Northern Region | $146,809.11 | $1,035.64 |
| Martin, John S. | Sr. VP, Logistics | $168,180.06 | $13,465.12 |
| McNee, J. (Andrew) | Solicitor | $143,926.61 | $307.64 |
| Misetich, David J. | Inventory Manager | $105,564.47 | $242.50 |
| Mogk-Edwards, Shari L. | Dir., VINTAGES Sales & Purchasing | $136,427.04 | $300.04 |
| Murphy, Peter J. | Dir., Conv. Warehousing & Spec. Svcs. | $143,926.71 | $307.64 |
| Mutlak, Theresa | Dir., Financial Reporting & Tech. | $124,071.42 | $269.40 |
| O'Brien, Barry | Director, Corporate Affairs | $128,605.96 | $269.40 |
| Peter, N. Robert | President & COO | $273,823.80 | $7,106.62 |
| Pezzot, Bruno | Director, Real Estate | $102,971.63 | $237.72 |
| Pizzolato, Bruce | Director, Durham Facility | $141,684.28 | $307.64 |
| Poulin, Robert | District Manager | $102,212.97 | $423.90 |
| Ramsay, Gary L. | Director, Applications Systems | $143,926.71 | $307.64 |
| Renton, Alison E. | Solicitor | $115,510.42 | $316.32 |
| Reynolds, Vincent | Manager, Tech. Support | $101,793.79 | $234.90 |
| Robertson, Tish L. | Systems Manager | $100,143.95 | $234.90 |
| Russell, Kevin G. | Director, Retail Planning | $104,912.25 | $237.72 |
| Salvisburg, A. N. | Dir., Customer Service & Admin. | $141,684.47 | $307.64 |
| Schmidt, Linda | Inventory Manager | $101,522.53 | $238.41 |
| Sherwood, Garfield G.* | Sr. VP, Retail | $218,689.77 | $2,055.55 |
| Skelly, John P. | Maintenance Shift Supervisor | $100,513.75 | $177.78 |
| Soleas, George | VP, Quality Assurance | $152,974.52 | $325.58 |
| Stanley, Thomas D. | Director, I.T. Infrastructure | $117,664.11 | $268.62 |
| Stephens, Mike | Director, Retail Inventory Mgmt. | $118,652.68 | $1,085.64 |
| Sutton, Shelley | Director, Strategic Planning | $128,213.38 | $269.40 |
| Tang, K. (David) | Consulting Tech. Systems Specialist | $103,113.90 | $234.90 |
| Thibodeau, Donald L. | District Manager | $102,212.97 | $1,425.90 |
| Toner, David J. | District Manager | $103,175.82 | $440.90 |
| Tughan, William H. | Director, Resource Protection | $126,081.16 | $269.40 |
| Turner, Jim H. | Director, Western Region | $146,808.95 | $861.64 |
| Van Kessel, Renee D. | Solicitor | $123,653.81 | $307.64 |
| Walker, R. Lila | Dir., Compensation & HR Admin. | $126,642.97 | $269.40 |
| Whitelaw, Richard J. | Treasurer | $145,271.76 | $307.64 |
| Wilson, Tom J. | VP, VINTAGES | $155,366.62 | $325.58 |
| Wood, J. R. | District Manager | $102,671.47 | $3,238.90 |
| Wright, Brian A. | Database Administrator | $101,112.79 | $204.68 |
| Yazejian, Levon K. | Director, General Audit | $128,605.96 | $269.40 |
| Zachar, Wayne V. | Director, Employee Relations | $146,809.11 | $307.64 |
| Zhu, Ye | Sr. Systems Analyst | $102,457.56 | $169.84 |

* Retired during fiscal 2003-04

# RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2004.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility. However, due to the expiration of the terms of two members of the Audit and Governance Committee prior to year end, the Financial Statements were reviewed and approved by the Board but not by the Audit and Governance Review Committee.

The financial statements have been audited by the Office of the Provincial Auditor. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

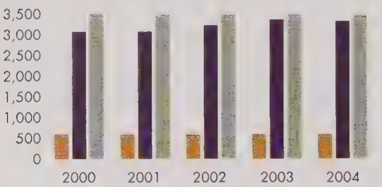
On behalf of management:

J. C. Browning

*Senior Vice President, Finance & Administration, and Chief Financial Officer*
*June 11, 2004*

# FINANCIAL OVERVIEW

### KEY INDICATORS: 2000-2004



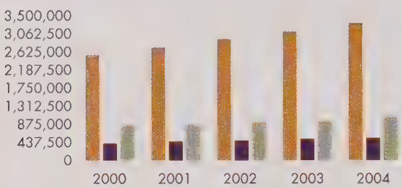

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

### OPERATIONS

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 602 | 600 | 599 | 597 | 598 |
| Number of Permanent Employees | 3,074 | 3,174 | 3,225 | 3,362 | 3,320 |
| Number of Regular Products Listed | 3,496 | 3,478 | 3,487 | 3,476 | 3,449 |

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

### FINANCIAL INDICATORS: 2000-2004 (values in $000s)

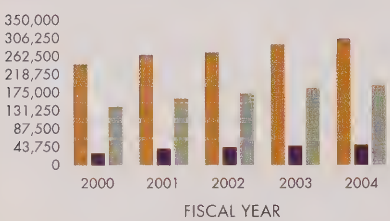



### FINANCIAL (values in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,549,458 | 2,734,937 | 2,939,563 | 3,119,240 | 3,320,681 |
| % Change/Previous Year | 8.50% | 7.28% | 7.48% | 6.11% | 6.46% |
| Operating Expenses | 414,861 | 468,090 | 489,633 | 525,959 | 548,778 |
| As a % of Net Sales & Other Income | 16.27% | 17.12% | 16.66% | 16.86% | 16.53% |
| Net Income | 845,694 | 876,272 | 920,912 | 939,542 | 1,045,428 |
| As a % of Net Sales & Other Income | 33.17% | 32.04% | 31.33% | 30.12% | 31.48% |

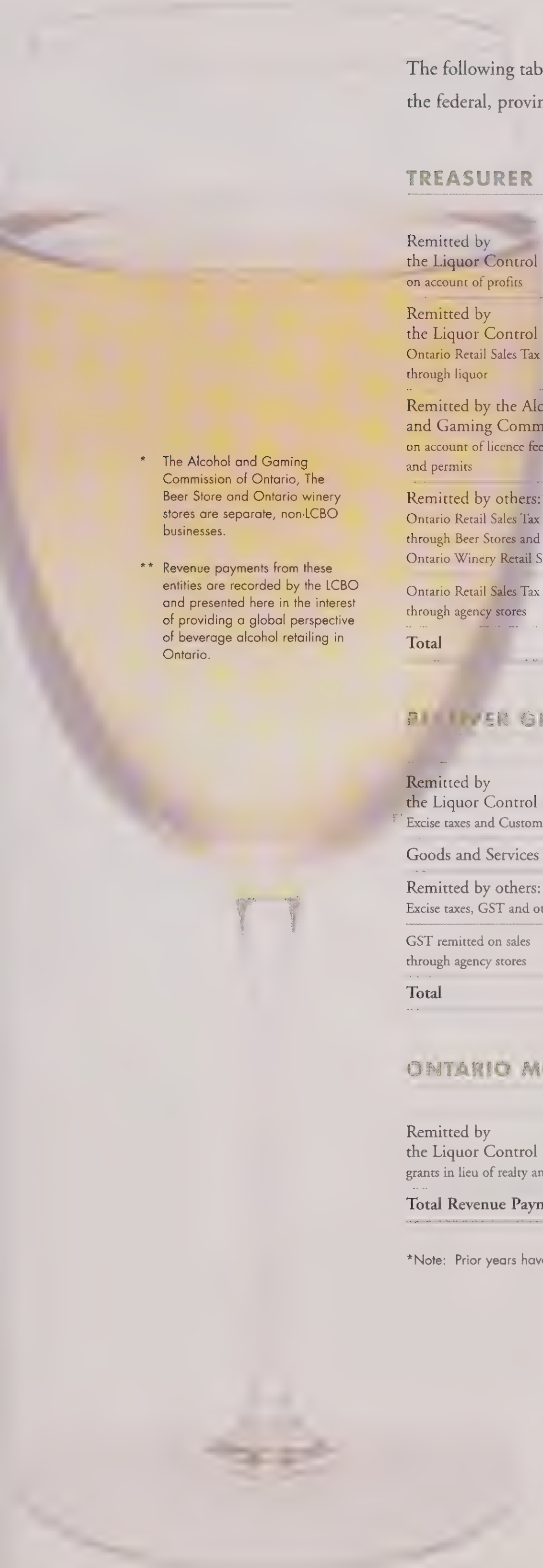
Note: The LCBO refers to sales in three different ways: first, gross sales, which include the federal Goods and Services Tax and the Provincial Sales Tax; second, net sales, which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 48.

### OPERATING EXPENSES: 2000-2004 (values in $000s)




### BREAKDOWN OF OPERATING EXPENSES (values in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Salaries and Benefits | 244,399 | 266,929 | 272,594 | 291,762 | 305,664 |
| Depreciation | 29,582 | 40,546 | 44,260 | 47,602 | 49,917 |
| Other Expenses | 140,880 | 160,615 | 172,779 | 186,595 | 193,197 |
| Total Operating Expenses | 414,861 | 468,090 | 489,633 | 525,959 | 548,778 |



The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

## TREASURER OF ONTARIO (values in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: on account of profits | 800,000 | 850,000 | 905,000 | 975,000 | 1,040,000 |
| Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor | 239,071 | 255,347 | 275,072 | 288,884 | 308,134 |
| Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits | 537,569 | 524,110 | 530,799 | 526,650 | 487,589 |
| Remitted by others:** Ontario Retail Sales Tax on sales through Beer Stores and Ontario Winery Retail Stores | 177,406 | 177,302 | 186,308 | 194,320 | 196,733 |
| Ontario Retail Sales Tax on sales through agency stores | 3,672 | 3,847 | 4,027 | 5,596 | 7,582 |
| **Total** | 1,757,718 | 1,810,606 | 1,901,206 | 1,990,450 | 2,040,038 |

* The Alcohol and Gaming Commission of Ontario, The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

## RECEIVER GENERAL FOR CANADA (values in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: Excise taxes and Customs duties | 267,137 | 278,430 | 284,520 | 294,203 | 307,366 |
| Goods and Services Tax (GST) | 69,718 | 79,056 | 84,885 | 97,459 | 103,464 |
| Remitted by others: Excise taxes, GST and other duties/taxes | 367,637 | 361,917 | 355,868 | 303,508 | 347,231 |
| GST remitted on sales through agency stores | 2,142 | 2,244 | 2,349 | 3,264 | 4,423 |
| **Total** | 706,634 | 721,647 | 727,622 | 698,434 | 762,484 |

## ONTARIO MUNICIPALITIES (values in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: grants in lieu of realty and business taxes | 10,100 | 11,121 | 12,003 | 11,253 | 12,280 |
| **Total Revenue Payments** | 2,474,452 | 2,543,374 | 2,640,831 | 2,700,137 | 2,814,802 |

*Note: Prior years have been restated to include property taxes on leased properties.

## LCBO VOLUME SALES (in 000s Litres)

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Domestic Spirits | 33,310 | 34,286 | 33,897 | 33,570 | 33,704 |
| Domestic Spirit Coolers | 17,361 | 16,789 | 25,791 | 29,076 | 26,910 |
| Imported Spirits | 17,491 | 18,851 | 20,866 | 23,434 | 25,633 |
| **Total Spirits** | **68,162** | **69,926** | **80,554** | **86,080** | **86,247** |
| Domestic Wine | 26,523 | 26,958 | 28,445 | 29,912 | 28,394 |
| Domestic Wine Coolers | 489 | 499 | 549 | 426 | 233 |
| Imported Wine | 57,010 | 60,626 | 63,339 | 66,732 | 70,314 |
| **Total Wine** | **84,022** | **88,083** | **92,333** | **97,070** | **98,941** |
| Domestic Beer | 65,618 | 67,677 | 75,046 | 79,290 | 84,950 |
| Domestic Beer Coolers | 339 | 627 | 363 | 108 | 168 |
| Imported Beer | 64,451 | 73,756 | 83,337 | 92,242 | 98,656 |
| **Total Beer** | **130,408** | **142,060** | **158,746** | **171,640** | **183,774** |
| **Total Domestic** | **143,640** | **146,836** | **164,091** | **172,382** | **174,359** |
| **Total Imported** | **138,952** | **153,233** | **167,542** | **182,408** | **194,603** |
| **Total** | **282,592** | **300,069** | **331,633** | **354,790** | **368,962** |

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 14,074 | 14,961 | 16,235 | 16,717 | 17,278 |
| Sales by The Beer Store & On-site Brewery Stores | 663,806 | 643,721 | 651,548 | 653,087 | 657,708 |

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2003 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

## SHARE OF VOLUME SALES


## LCBO VOLUME SALES BY PRODUCT TYPE: 2000-2004


Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

## SHARE OF VALUE SALES

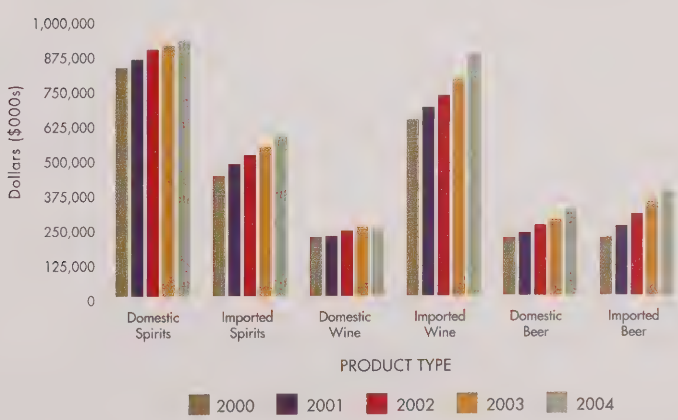

## LCBO VALUE SALES (in $000s)

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Domestic Spirits | 739,313 | 771,487 | 764,567 | 761,589 | 788,141 |
| Domestic Spirit Coolers | 84,579 | 82,354 | 125,869 | 142,410 | 134,616 |
| Imported Spirits | 435,093 | 476,972 | 510,080 | 537,838 | 575,994 |
| **Total Spirits** | **1,258,985** | **1,330,813** | **1,400,516** | **1,441,837** | **1,498,751** |
| Domestic Wine | 211,595 | 214,443 | 234,238 | 249,272 | 239,375 |
| Domestic Wine Coolers | 1,797 | 1,954 | 2,134 | 1,606 | 922 |
| Imported Wine | 635,112 | 680,993 | 724,784 | 783,045 | 867,985 |
| **Total Wine** | **848,504** | **897,390** | **961,156** | **1,033,923** | **1,108,282** |
| Domestic Beer | 208,882 | 225,612 | 254,218 | 274,324 | 306,300 |
| Domestic Beer Coolers | 1,035 | 2,076 | 1,198 | 420 | 833 |
| Imported Beer | 210,815 | 252,221 | 295,426 | 339,926 | 376,676 |
| **Total Beer** | **420,732** | **479,909** | **550,842** | **614,670** | **683,809** |
| **Total Domestic** | **1,247,201** | **1,297,926** | **1,382,224** | **1,429,621** | **1,470,187** |
| **Total Imported** | **1,281,020** | **1,410,186** | **1,530,290** | **1,660,809** | **1,820,655** |
| Non-Liquor | 5,389 | 6,213 | 7,782 | 7,260 | 7,055 |
| **Total** | **2,533,610** | **2,714,325** | **2,920,296** | **3,097,690** | **3,297,897** |

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 118,219 | 123,739 | 137,994 | 146,457 | 153,235 |
| Sales by The Beer Store | 2,021,111 | 2,062,297 | 2,174,248 | 2,245,378 | 2,302,724 |

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

## LCBO VALUE SALES BY PRODUCT TYPE: 2000-2004




Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

## PRODUCT LISTINGS

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Spirits | 518 | 542 | 486 | 460 | 471 |
| Wine | 536 | 499 | 481 | 469 | 433 |
| Beer | 403 | 407 | 426 | 444 | 473 |
| **Imported** | | | | | |
| Spirits | 586 | 641 | 672 | 652 | 690 |
| Wine | 1192 | 1113 | 1164 | 1187 | 1130 |
| Beer | 261 | 276 | 258 | 264 | 252 |
| **Total Regular Listings** | **3,496** | **3,478** | **3,487** | **3,476** | **3,449** |
| VINTAGES Wines and Spirits | 3,569 | 3,108 | 2,858 | 3,127 | 4,250 |
| Duty-Free Listings | 235 | 212 | 224 | 240 | 221 |
| Consignment Warehouse and Private Stock | 6,106 | 6,225 | 5,444 | 6,813 | 7286 |
| **Total Product Listings** | **13,406** | **13,023** | **12,013** | **13,656** | **15,206** |

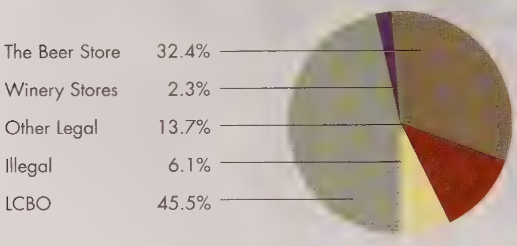
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

## LCBO SALES CHANNEL SUMMARY (in $000s)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| LCBO Total Sales | 2,967,710 | 3,177,916 | 3,417,729 | 3,622,049 | 3,857,394 |
| The Beer Store Total Sales | 2,324,225 | 2,381,289 | 2,522,993 | 2,607,077 | 2,638,488 |
| Winery Retail Stores Total Sales | 140,681 | 147,178 | 162,539 | 174,284 | 182,349 |
| **Other Channels:** | | | | | |
| Legal | 941,465 | 1,000,660 | 1,017,104 | 957,073 | 667,687 |
| Homemade | 59,070 | 49,025 | 48,013 | 50,852 | 148,163 |
| De-alcoholized Beer | 22,314 | 20,870 | 20,191 | 19,125 | 20,503 |
| Illegal | 455,801 | 405,918 | 432,435 | 455,529 | 442,971 |
| **Grand Total** | **6,911,266** | **7,182,856** | **7,621,004** | **7,885,989** | **7,957,555** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the charts below. The methodology used to estimate certain categories under Other Channels has been revised for 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

## VALUE BY SALES CHANNEL



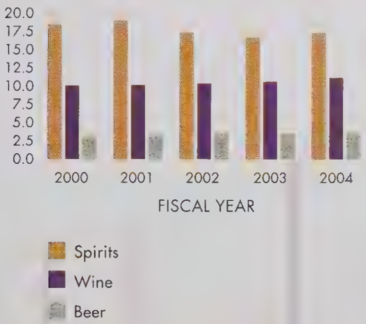
## AVERAGE LCBO RETAIL PRICES PER LITRE

(prices excludes GST and PST)

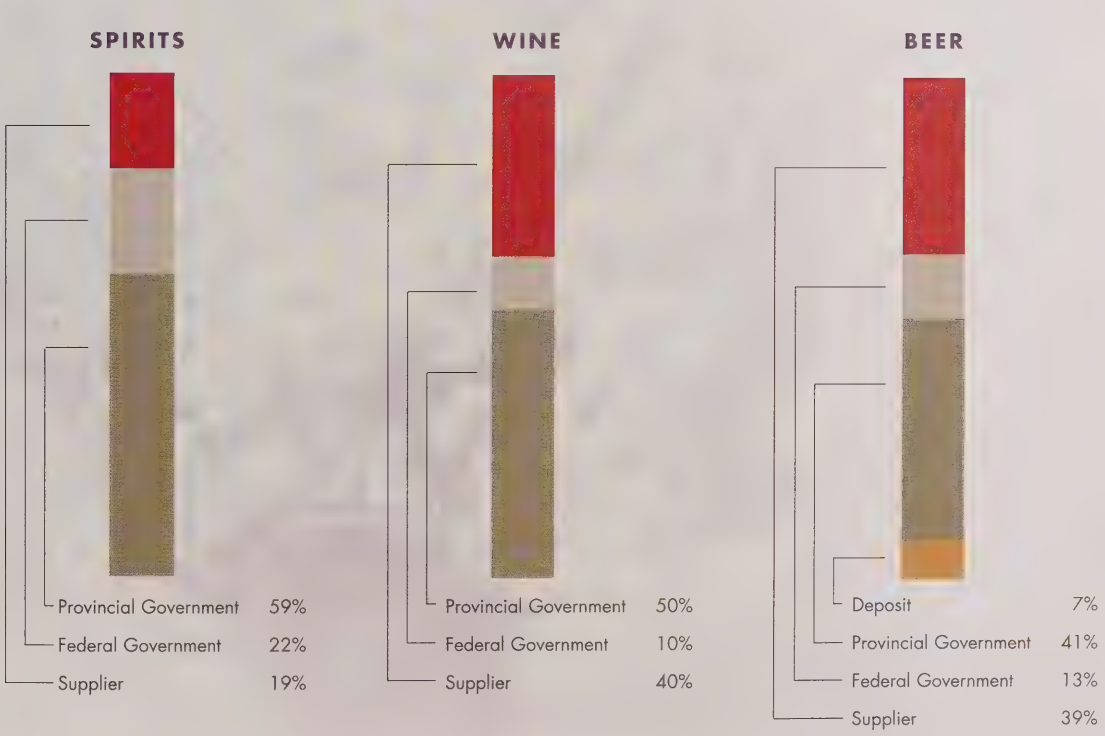
| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Spirits | $18.47 | $19.03 | $17.39 | $16.75 | $17.38 |
| Wine | $10.10 | $10.19 | $10.41 | $10.65 | $11.20 |
| Beer | $3.23 | $3.38 | $3.47 | $3.58 | $3.72 |
| **Average Transaction Value per Customer** | **$29.55** | **$30.51** | **$31.05** | **$31.90** | **$32.97** |

Note: Includes Coolers

## AVERAGE LCBO RETAIL PRICES PER LITRE 2000-2004




## REVENUE DISTRIBUTION



The tables below show the share of volume sales held by various segments within major product categories.

## PRODUCT CATEGORY SHARE

| Canadian Spirits | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Canadian Whisky | 29.9% | 30.3% | 25.6% | 24.0% | 25.5% |
| Canadian Rum | 14.5% | 14.7% | 12.6% | 11.9% | 12.7% |
| Canadian Vodka | 14.2% | 14.6% | 12.7% | 12.2% | 13.5% |
| Spirit Coolers | 34.3% | 32.9% | 43.2% | 46.4% | 43.0% |
| Canadian Dry Gin | 2.1% | 2.1% | 1.6% | 1.3% | 1.3% |
| Other | 5.0% | 5.4% | 4.3% | 4.2% | 4.0% |
| **Imported Spirits** | | | | | |
| Scotch | 22.0% | 20.2% | 18.1% | 16.3% | 15.0% |
| Liqueur | 18.2% | 17.8% | 15.6% | 13.6% | 12.5% |
| Miscellaneous Liquors | 13.5% | 13.6% | 13.9% | 12.8% | 10.9% |
| Vodka | 15.5% | 16.0% | 15.7% | 15.0% | 13.8% |
| French Brandy | 9.0% | 8.8% | 8.0% | 7.5% | 7.3% |
| Spirit Coolers | 0.6% | 2.5% | 8.6% | 16.7% | 21.4% |
| Other | 21.2% | 21.1% | 20.1% | 18.1% | 19.1% |
| **Canadian Wines** | | | | | |
| White Table | 48.4% | 48.4% | 49.2% | 49.8% | 50.3% |
| Red Table | 24.1% | 25.7% | 26.6% | 28.4% | 30.2% |
| 7% Sparkling | 6.2% | 5.6% | 5.5% | 5.3% | 5.0% |
| Sherry | 4.4% | 4.5% | 4.6% | 4.5% | 4.1% |
| Wine Coolers | 1.8% | 1.7% | 1.9% | 1.7% | 0.8% |
| Other | 15.1% | 14.1% | 12.2% | 10.3% | 9.6% |
| **Imported Wines** | | | | | |
| White Table | 39.6% | 37.6% | 36.4% | 34.7% | 33.7% |
| Red Table | 44.4% | 46.3% | 47.4% | 49.4% | 50.7% |
| Champagne | 4.6% | 3.5% | 3.5% | 3.4% | 3.3% |
| Sherry | 1.1% | 1.0% | 0.9% | 0.8% | 0.7% |
| Other | 10.3% | 11.6% | 11.8% | 11.7% | 11.6% |
| **Canadian Beer** | | | | | |
| Ontario Beer | 91.3% | 88.4% | 87.3% | 85.3% | 85.5% |
| Other Canadian Beer | 8.7% | 11.6% | 12.7% | 14.7% | 14.5% |
| **Imported Beer** | | | | | |
| U.S. Beer | 36.9% | 31.0% | 25.1% | 18.5% | 19.2% |
| Other Imported Beer | 62.9% | 68.8% | 74.7% | 81.3% | 80.6% |
| Saké | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |

The following table shows detailed sales of wine by volume and value (LCBO sales only).

**VOLUME** (000s litres)

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Red Wine | 31,012 | 34,100 | 36,421 | 39,699 | 42,987 |
| White Wine | 34,913 | 35,189 | 35,786 | 36,072 | 37,183 |
| Rosé Wine | 3,264 | 2,984 | 2,934 | 2,878 | 2,813 |
| Sparkling Wine | 4,704 | 3,894 | 3,892 | 3,858 | 3,886 |
| Fortified Wine | 3,373 | 3,457 | 3,400 | 3,328 | 3,276 |
| Wine Coolers | 947 | 868 | 812 | 654 | 486 |
| Other Wine | 3,968 | 5,358 | 5,564 | 5,533 | 5,891 |
| VQA Wines* | 3,158 | 3,659 | 3,933 | 4,387 | 4,102 |

**VALUE** ($000s)

| Product Type | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Red Wine | 347,051 | 390,289 | 430,867 | 478,088 | 540,634 |
| White Wine | 312,901 | 319,344 | 330,730 | 340,611 | 357,794 |
| Rosé Wine | 27,699 | 25,091 | 24,703 | 24,236 | 23,787 |
| Sparkling Wine | 70,310 | 52,914 | 53,161 | 55,451 | 57,703 |
| Fortified Wine | 32,995 | 34,691 | 33,918 | 33,919 | 34,738 |
| Wine Coolers | 4,454 | 3,970 | 3,594 | 2,883 | 2,323 |
| Other Wine | 30,024 | 42,858 | 45,354 | 46,258 | 51,311 |
| VQA Wines* | 41,259 | 47,770 | 50,205 | 56,445 | 55,115 |

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.
Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO spirits sales by country of origin for fiscal 2003–04.

## SPIRITS 2003–04

| Country | NET SALES | LITRES |
|---|---|---|
| CANADA | $914,600,858 | 60,582,248 |
| GREAT BRITAIN | $186,736,121 | 10,407,074 |
| FRANCE | $87,797,413 | 2,655,431 |
| U.S.A. | $62,238,973 | 2,965,447 |
| IRELAND | $54,490,798 | 1,973,984 |
| SWEDEN | $38,203,103 | 1,762,803 |
| ITALY | $32,594,102 | 1,348,184 |
| MEXICO | $31,240,461 | 1,002,170 |
| GERMANY | $15,790,807 | 642,719 |
| FINLAND | $11,010,926 | 485,096 |
| POLAND | $7,386,266 | 305,182 |
| BARBADOS | $4,668,609 | 191,947 |
| GREECE | $4,069,705 | 182,415 |
| JAMAICA | $4,065,256 | 149,093 |
| SOUTH AFRICA | $3,656,564 | 144,599 |
| RUSSIAN FEDERATION | $3,592,388 | 150,816 |
| NETHERLANDS | $3,026,200 | 138,834 |
| SWITZERLAND | $2,994,397 | 97,207 |
| CUBA | $1,827,855 | 69,344 |
| NEW ZEALAND | $1,475,079 | 163,876 |
| AUSTRALIA | $1,458,619 | 289,364 |
| PORTUGAL | $1,263,232 | 46,210 |
| CROATIA | $1,085,713 | 42,150 |
| PUERTO RICO | $978,858 | 30,271 |
| BERMUDA | $767,985 | 32,796 |
| AUSTRIA | $746,463 | 15,519 |
| SPAIN | $738,891 | 29,723 |
| HUNGARY | $662,365 | 27,766 |
| CZECH REPUBLIC | $545,678 | 7,802 |
| GUYANA | $405,524 | 14,112 |
| BAHAMAS | $373,380 | 12,342 |
| LEBANON | $344,349 | 11,266 |
| DENMARK | $325,687 | 15,271 |
| REPUBLIC OF YUGOSLAVIA | $319,621 | 10,065 |
| INDIA | $222,063 | 9,576 |
| PEOPLE'S REPUBLIC OF CHINA | $213,372 | 9,791 |
| CHILE | $213,330 | 8,464 |
| ISRAEL | $149,868 | 6,339 |
| UKRAINE | $137,254 | 5,704 |
| DOMINICAN REPUBLIC | $99,644 | 2,660 |
| BRITISH VIRGIN ISLANDS | $99,169 | 4,099 |
| BRAZIL | $80,947 | 3,509 |
| BELGIUM | $66,006 | 2,781 |
| MACEDONIA | $62,336 | 2,587 |
| TURKEY | $51,526 | 1,667 |
| TRINIDAD | $43,071 | 1,308 |
| PHILIPPINES | $22,926 | 996 |
| ST. LUCIA | $21,087 | 807 |
| NORWAY | $5,429 | 134 |
| CYPRUS | $3,174 | 188 |
| BOLIVIA | $1,310 | 56 |
| GEORGIA | $1,081 | 18 |
| **TOTAL** | **$1,482,975,839** | **86,063,809** |

The following table shows LCBO wine sales by country of origin for fiscal 2003–04.

## WINE 2003-04

| Country | NET SALES | LITRES |
|---|---|---|
| CANADA | $237,680,903 | 28,579,955 |
| FRANCE | $198,482,845 | 15,688,194 |
| ITALY | $186,828,823 | 16,586,424 |
| AUSTRALIA | $166,363,926 | 11,091,954 |
| U.S.A. | $101,364,962 | 8,902,210 |
| CHILE | $46,738,788 | 4,463,027 |
| SPAIN | $22,278,756 | 1,752,067 |
| PORTUGAL | $22,101,352 | 1,804,912 |
| SOUTH AFRICA | $21,375,804 | 2,034,181 |
| GERMANY | $20,553,415 | 1,962,841 |
| NEW ZEALAND | $9,941,006 | 556,952 |
| ARGENTINA | $6,327,627 | 633,325 |
| GREECE | $4,476,010 | 554,978 |
| HUNGARY | $3,412,718 | 434,900 |
| GREAT BRITAIN | $2,748,568 | 624,006 |
| BULGARIA | $2,129,579 | 276,865 |
| JAPAN | $925,137 | 76,311 |
| REPUBLIC OF YUGOSLAVIA | $923,667 | 113,287 |
| ISRAEL | $918,131 | 80,982 |
| CROATIA | $523,923 | 61,243 |
| POLAND | $393,121 | 27,166 |
| AUSTRIA | $355,404 | 24,193 |
| JAMAICA | $321,962 | 32,268 |
| ROMANIA | $233,256 | 26,919 |
| MEXICO | $205,457 | 18,291 |
| LEBANON | $204,070 | 10,648 |
| DENMARK | $200,076 | 17,033 |
| REPUBLIC OF KOREA | $185,073 | 8,442 |
| IRELAND | $175,838 | 29,220 |
| MACEDONIA | $158,043 | 21,171 |
| SWITZERLAND | $109,723 | 4,614 |
| CYPRUS | $87,596 | 7,844 |
| SLOVENIA | $73,981 | 8,383 |
| URUGUAY | $43,030 | 3,265 |
| REPUBLIC OF MOLDOVA | $24,488 | 2,198 |
| TUNISIA | $17,382 | 1,044 |
| PEOPLE'S REPUBLIC OF CHINA | $9,898 | 646 |
| GEORGIA | $3,537 | 233 |
| CZECH REPUBLIC | $3,359 | 152 |
| MOROCCO | $524 | 68 |
| TOTAL | $1,058,901,758 | 96,522,412 |

The following table shows LCBO beer sales by country of origin for fiscal 2003–04.

## BEER 2003-04

| Country | NET SALES | LITRES |
|---|---|---|
| CANADA | $298,366,103 | 82,554,698 |
| NETHERLANDS | $81,362,206 | 18,863,232 |
| MEXICO | $77,954,836 | 16,785,200 |
| U.S.A. | $53,815,533 | 16,686,076 |
| GERMANY | $31,374,463 | 8,780,333 |
| BELGIUM | $19,136,518 | 4,222,646 |
| IRELAND | $15,280,980 | 3,421,784 |
| GREAT BRITAIN | $15,025,587 | 3,904,670 |
| BRAZIL | $10,541,357 | 2,181,030 |
| DENMARK | $10,221,734 | 3,222,675 |
| POLAND | $8,835,997 | 2,543,306 |
| CZECH REPUBLIC | $5,760,109 | 1,597,732 |
| JAPAN | $1,985,230 | 517,288 |
| TRINIDAD | $1,453,045 | 394,116 |
| JAMAICA | $1,369,890 | 344,454 |
| PEOPLE'S REPUBLIC OF CHINA | $1,171,783 | 311,761 |
| SINGAPORE | $625,195 | 187,908 |
| AUSTRIA | $597,283 | 188,076 |
| SLOVAKIA | $572,022 | 159,235 |
| ITALY | $542,767 | 137,281 |
| PORTUGAL | $530,449 | 144,707 |
| SOUTH AFRICA | $465,672 | 141,685 |
| NEW ZEALAND | $351,918 | 91,047 |
| RUSSIAN FEDERATION | $338,938 | 102,582 |
| UKRAINE | $296,832 | 83,862 |
| THAILAND | $255,446 | 62,195 |
| CUBA | $233,741 | 54,346 |
| CROATIA | $210,447 | 57,389 |
| PHILIPPINES | $197,952 | 57,912 |
| GREECE | $117,786 | 29,342 |
| FRANCE | $106,858 | 22,134 |
| KENYA | $96,232 | 20,790 |
| BAHAMAS | $41,884 | 9,725 |
| LITHUANIA | $41,701 | 12,211 |
| AUSTRALIA | $40,538 | 9,345 |
| CYPRUS | $40,527 | 9,554 |
| INDIA | $37,548 | 8,617 |
| LEBANON | $14,128 | 3,491 |
| SPAIN | $11,551 | 2,774 |
| TOTAL | $639,422,786 | 167,927,208 |

Note: Net value represents net sales including VINTAGES sales but excluding Private Stock sales. In fiscal 2003-04, the LCBO sold products from 67 different countries.

# AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Economic Development and Trade

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2004 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2004, the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 11, 2004

**Jim McCarter**, CA
Assistant Provincial Auditor

## Balance Sheet As at March 31, 2004

| ASSETS (in $000s) | 2004 | 2003 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 60,724 | 46,385 |
| Accounts receivable, trade and others | 28,436 | 22,365 |
| Inventories | 270,246 | 247,523 |
| Prepaid expenses | 5,812 | 6,619 |
| | **365,218** | **322,892** |
| **Long-term** | | |
| Capital assets (Note 5) | 227,504 | 225,045 |
| | **592,722** | **547,937** |

| LIABILITIES AND RETAINED INCOME | | |
|---|---|---|
| **Current** | | |
| Accounts payable and accrued liabilities | 298,755 | 262,140 |
| Current portion of accrued benefit obligation (Note 3) | 4,924 | 4,508 |
| | **303,679** | **266,648** |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 35,217 | 32,891 |
| Retained income | 253,826 | 248,398 |
| | **592,722** | **547,937** |

**Commitments and Contingencies (Notes 6 and 8)**

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
*Chair and Chief Executive Officer*

Perry Miele
*LCBO Board Member*

## STATEMENT OF INCOME AND RETAINED INCOME
**Year ended March 31, 2004**

| (in $000s) | 2004 | 2003 |
|---|---|---|
| **Sales and other income** | **3,320,681** | **3,119,240** |
| **Costs and expenses** | | |
| Cost of sales | 1,726,475 | 1,653,739 |
| Retail stores and marketing | 373,978 | 360,448 |
| Warehousing and distribution | 67,470 | 64,431 |
| Administration | 57,413 | 53,478 |
| Amortization | 49,917 | 47,602 |
| | **2,275,253** | **2,179,698** |
| Net income for the year | 1,045,428 | 939,542 |
| Retained income, beginning of year | 248,398 | 283,856 |
| | **1,293,826** | **1,223,398** |
| Deduct: Dividend paid to Province of Ontario | 1,035,000 | 970,000 |
| Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 5,000 |
| | **1,040,000** | **975,000** |
| **Retained income, end of year** | **253,826** | **248,398** |

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS **Year ended March 31, 2004**

| (in $000s) | 2004 | 2003 |
|---|---|---|
| **Cash provided from operations** | | |
| Net income | 1,045,428 | 939,542 |
| Amortization | 49,917 | 47,602 |
| Gain (Loss) on sale of capital assets | (234) | (1,306) |
| | **1,095,111** | **985,838** |
| **Increase in non-cash items** | | |
| Working capital | 8,628 | 23,035 |
| Accrued benefit obligation | 2,742 | 5,850 |
| | **1,106,481** | **1,014,723** |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (53,434) | (75,062) |
| Proceeds from sale of capital assets | 1,292 | 1,616 |
| | **(52,142)** | **(73,446)** |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (1,035,000) | (970,000) |
| Payment to municipalities on behalf of the Province of Ontario (Note 9) | (5,000) | (5,000) |
| | **(1,040,000)** | **(975,000)** |
| Increase (decrease) in cash during the year | 14,339 | (33,723) |
| Cash and cash equivalents, beginning of year | 46,385 | 80,108 |
| **Cash and cash equivalents, end of year** | **60,724** | **46,385** |

See accompanying notes to financial statements.

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

### *(a) Basis of Accounting*

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### *(b) Inventories*

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### *(c) Capital Assets*

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### *(d) Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *(e) Cash and Cash Equivalents*

Cash and cash equivalents comprise cash and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

## 3. Accrued Benefit Obligation

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers' compensation obligation.

In fiscal 2004, the cost of these employee future benefits was $7.5 million (2003 – $8.7 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2004 is $40.1 million (2003 – $37.4 million) of which $4.9 million (2003 – $4.5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2004, the expense was $13.8 million (2003 – $11.1 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 5. Capital Assets

| (in $000's) | 2004 Cost | 2004 Accumulated Amortization | 2004 Net Book Value | 2003 Net Book Value |
|---|---|---|---|---|
| Land | 13,473 | — | 13,473 | 13,584 |
| Buildings | 302,071 | 207,872 | 94,199 | 93,168 |
| Furniture and fixtures | 66,248 | 37,791 | 28,457 | 22,539 |
| Leasehold improvements | 177,348 | 113,200 | 64,148 | 62,269 |
| Computer equipment | 98,650 | 71,423 | 27,227 | 33,485 |
| | **657,790** | **430,286** | **227,504** | **225,045** |

## 6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | (in $000s) |
|---|---|
| 2005 | 36,841 |
| 2006 | 35,194 |
| 2007 | 33,199 |
| 2008 | 30,741 |
| 2009 | 27,365 |
| Thereafter | 206,836 |
| | **370,176** |

## 7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2004 the Board had $4,871,250 (2003 – $4,448,340) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

## 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. Payment to Municipalities

During fiscal 2004, in accordance with Section 5(2) of the *Liquor Control Act*, 1990, the Board was directed by Cabinet to contribute $5 million (2003 - $5 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million annually in each of the next two years.

# BOARD MEMBERS

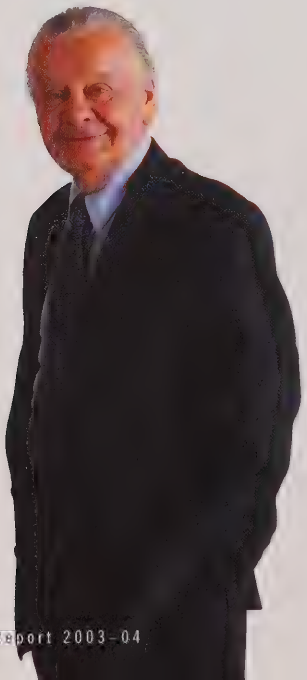
Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through orders-in-council. Appointments, up to five years, are sometimes renewed.

**ANDREW S. BRANDT:**
Appointed February 6, 1991.
Term expires February 2006.

Re-appointed in 2003 for a fifth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and in 1987 was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. During his tenure as Chair and CEO, Mr. Brandt has played a key role in the transformation of the LCBO from staid government bureaucracy to award-winning retailer, reflected in nine straight record dividend transfers to the government of Ontario.

**GAYLE CHRISTIE:**
Appointed June 13, 2001.
Term expires June 2004.

Ms. Christie is a Toronto government relations consultant who advises private-sector clients on how to work with municipalities, drawing on her experience as a former trustee, councillor and mayor of the city of York, which was amalgamated into Toronto in 1997. As mayor of York from 1978-82, she established the city's first internal audit committee and instituted other reforms to increase productivity and accountability. She then spent eight years with accounting firm Clarkson Gordon (now part of Ernst & Young), further developing her skills. In addition to her consultancy, she sits on several boards, including Humber River Regional Hospital, Runnymede Chronic Care Hospital and Yorktown Community Services.



**THOM A. BENNETT:**
Appointed October 11, 2000.
Term expired October 2003

**JOHN C. HOPPER:**
Appointed September 8, 1997.
Term expired September 2003

**DR. MERLE A. JACOBS:**
Appointed December 17, 1997.
Term expired December 2003

**BEV HAMMOND:**
Appointed September 26, 2002.
Term expires September 2005.

Bev Hammond is President of Veritas Communications, an award-winning Toronto public relations and public affairs agency. Before joining Veritas, she was president of Communiqué Public Relations and Director of PR at Grey Canada. Ms. Hammond combines her agency work with experience in both the federal and provincial governments. She has been senior advisor to the federal Minister of International Trade, with responsibility for bilateral trade, and advisor to the Minister of Small Business and Tourism, as well as Communications Director and Press Secretary to Ontario's Deputy Premier and Minister of Finance, and Executive Assistant to the Government House Leader. She serves on the board, and is Chair of the Marketing Committee for Special Olympics Canada. She is also Chair of the Advisory Board of Hammond Transportation.

**PERRY MIELE:**
Appointed April 3, 2002.
Term expires April 2005.

Perry Miele joined Financial Task Force, a merchant banking and business advisory company, as Chairman in 2001. He is also General Partner of The Mentor Fund, which invests intellectual and financial capital in "emerging" marketing and communications companies. Mr. Miele brings over 20 years of experience in the advertising and marketing industry and has earned a reputation as a strategic builder of businesses. In 1987, he became a partner in Gingko, a Toronto-based integrated marketing services company, which he grew into one of Canada's largest independently owned agencies. In 1998, he successfully negotiated a merger with DraftWorldwide (a subsidiary of Interpublic Group) headquartered in New York. Soon after the merger, Mr. Miele was named President of the International Group, responsible for all operations outside the United States and led the company's international expansion plan with a combination of strategic acquisitions and organic growth. A member of the Young Presidents Organization, he sits on the boards of Izumi Outdoors and the Fishing Forever Foundation.

# USEFUL FACTS

For the fiscal year ended March 31, 2004, unless otherwise noted

## The Marketplace

| | |
|---|---|
| 598 | Number of LCBO stores serving communities across Ontario |
| 181 | Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store |
| 891 | Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately-operated duty-free stores in Ontario |
| 47.8 | Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO |
| $8.0 billion | Total estimated value of Ontario's beverage alcohol market |
| $443 million | Estimated value of Ontario's illegal alcohol market |

## Our Stores

| | |
|---|---|
| 72 | Number of LCBO stores offering more than 2,500 brands for sale |
| 129 | Number of LCBO stores offering 1,500-2,500 brands for sale |
| 153 | Number of LCBO stores offering 1,000-1,500 brands for sale |
| 210 | Number of LCBO stores offering 500-1,000 brands for sale |
| 32 | Number of LCBO stores offering fewer than 500 brands for sale |
| 14,726 | Number of product tastings conducted in LCBO stores |
| 0.4 | Percentage of customers in a February 2003 survey who said they were dissatisfied with service in LCBO stores |
| 100 million | Total number of transactions in LCBO stores |
| 32.0 | Percentage of all LCBO transactions paid by debit card |
| 27.1 | Percentage of all LCBO transactions paid by credit card |

## Our Financial Performance

| | |
|---|---|
| $3.3 billion | The LCBO's net sales and other income in 2003-04 |
| $1.04 billion | Dividend the LCBO transferred to the government of Ontario for 2003-04 (excluding taxes) |
| $4.6 billion | Amount the LCBO has transferred the last five fiscal years combined (excluding taxes) |
| 417.8 | Percentage return on taxpayers' equity |
| 31.7 | The LCBO's profit margin, expressed as a percentage |
| 16.4 | The LCBO's operating expenses as a percentage of net sales |
| $308 million | Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) |
| $411 million | Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties |
| $32.2 million | Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) |

## Products and Pricing

| | |
|---|---|
| 15,206 | Total number of products available through LCBO stores, catalogues and private ordering service |
| 4,250 | Number of VINTAGES products offered in stores and through the *Classics Catalogue* and other programs |
| 67 | Number of countries from which the LCBO bought products |
| 1,574 | Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program |
| 1,252 | Number of products that carried a "value-add" bonus item |

# STATISTICAL INSERT

For LCBO Annual Report, fiscal 2003-04

## Product Listings

| Domestic | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Canadian Whisky | 158 | 163 | 153 | 147 | 158 |
| Canadian Blended Rums | 105 | 109 | 87 | 86 | 89 |
| Canadian Gin | 22 | 19 | 16 | 14 | 15 |
| Canadian Vodka | 70 | 75 | 61 | 64 | 59 |
| Canadian Brandy | 18 | 16 | 14 | 13 | 12 |
| Canadian Spirit Coolers | 51 | 64 | 57 | 45 | 57 |
| Fruit Spirits | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous Liquors | 24 | 27 | 30 | 17 | 8 |
| Canadian Liqueurs | 55 | 56 | 56 | 61 | 63 |
| Ontario Wines | 474 | 448 | 429 | 422 | 397 |
| Ontario Wine Coolers | 5 | 7 | 6 | 2 | 1 |
| Other Canadian Wines | 43 | 32 | 40 | 36 | 30 |
| Canadian Cider | 14 | 12 | 6 | 9 | 4 |
| Canadian Beer (incl. Beer Coolers) | 403 | 407 | 426 | 444 | 473 |
| Alcohol | 3 | 3 | 2 | 2 | 2 |
| Miniatures | 9 | 7 | 7 | 8 | 6 |
| Bitters | 3 | 3 | 3 | 3 | 3 |
| **Total Domestic** | **1,457** | **1,448** | **1,393** | **1,373** | **1,377** |
| **Imported** | | | | | |
| Scotch Whisky | 108 | 119 | 112 | 116 | 120 |
| Irish Whiskey | 11 | 10 | 9 | 10 | 12 |
| American Whiskey | 21 | 22 | 24 | 19 | 21 |
| Gin | 17 | 15 | 15 | 17 | 18 |
| Rum | 20 | 29 | 24 | 27 | 32 |
| Vodka | 47 | 53 | 63 | 61 | 62 |
| Tequila | 19 | 23 | 19 | 18 | 18 |
| Brandy | 100 | 101 | 113 | 118 | 132 |
| Fruit Spirits | 3 | 3 | 0 | 0 | 0 |
| Miscellaneous Liquors | 86 | 96 | 128 | 101 | 104 |
| Liqueurs | 125 | 127 | 124 | 126 | 131 |
| Wines | 1,187 | 1,111 | 1,155 | 1,177 | 1,113 |
| Beer and Saké | 256 | 276 | 252 | 261 | 255 |
| Miniatures | 18 | 28 | 26 | 20 | 22 |
| Coolers | 11 | 7 | 22 | 23 | 29 |
| Bitters | 10 | 10 | 8 | 9 | 3 |
| **Total Imported** | **2,039** | **2,030** | **2,094** | **2,103** | **2,072** |
| **Total Regular Listings** | **3,496** | **3,478** | **3,487** | **3,476** | **3,449** |
| VINTAGES Wines and Spirits | 3,569 | 3,108 | 2,858 | 3,127 | 4,250 |
| Duty-Free Listings | 235 | 212 | 224 | 240 | 221 |
| Consignment Warehouse and Private Stock | 6,106 | 6,225 | 5,444 | 6,813 | 7,286 |
| **Total Product Listings** | **13,406** | **13,023** | **12,013** | **13,656** | **15,206** |

Note: Canadian blended brandy, which in previous years was listed separately, is now included in the Canadian brandy listings. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

**Sales Channel Summary (value in $000s)** Year ended March 31, 2004

| LCBO | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Retail Sales | 2,390,949 | 2,556,340 | 2,752,978 | 2,889,813 | 3,082,837 |
| Licensee Sales | 396,879 | 419,731 | 417,478 | 431,212 | 430,561 |
| Agency Sales | 32,420 | 33,981 | 35,578 | 48,645 | 64,881 |
| Duty-Free/Warehouse | 34,454 | 35,943 | 35,442 | 37,804 | 32,886 |
| Duty-Free/LCBO | 303 | 0 | 0 | 0 | 0 |
| TBS Sales | 109,692 | 128,848 | 172,416 | 209,608 | 239,723 |
| Other Sales | 3,013 | 3,073 | 3,837 | 4,967 | 6,506 |
| **Total** | **2,967,710** | **3,177,916** | **3,417,729** | **3,622,049** | **3,857,394** |
| **The Beer Store** | | | | | |
| Retail & Licensee Sales | 2,324,225 | 2,381,289 | 2,522,993 | 2,607,077 | 2,638,488 |
| **Winery Stores** | | | | | |
| Retail Sales | 140,681 | 147,178 | 162,539 | 174,284 | 182 349 |
| **Other Channels** | | | | | |
| **Legal:** | | | | | |
| Cross-Border Exempt | 155,818 | 208,614 | 210,856 | 204,485 | 186,473 |
| Cross-Border Declared | 3,124 | 2,658 | 2,526 | 2,336 | 2,549 |
| Brew Pubs | 1,950 | 1,624 | 1,548 | 1,623 | 1,361 |
| Wine Pubs | 4,722 | 4,647 | 4,675 | 4,848 | 6,562 |
| U-Brew-Beer | 163,959 | 174,425 | 185,265 | 175,536 | 37,146 |
| U-Brew-Wine | 611,892 | 608,692 | 612,234 | 568,245 | 433,596 |
| **Total** | **941,465** | **1,000,660** | **1,017,104** | **957,073** | **667,687** |
| **Homemade:** | | | | | |
| Wine | 40,597 | 30,702 | 30,892 | 34,630 | 144,532 |
| Beer | 18,473 | 18,323 | 17,121 | 16,222 | 3,631 |
| **Total** | **59,070** | **49,025** | **48,013** | **50,852** | **148,163** |
| **De-alcoholized Beer** | **22,314** | **20,870** | **20,191** | **19,125** | **20,503** |
| **Illegal:** | | | | | |
| Smuggling | 279,883 | 270,735 | 299,865 | 290,011 | 279,909 |
| Wine Manufacturing | 175,918 | 135,183 | 132,570 | 165,518 | 163,062 |
| **Total** | **455,801** | **405,918** | **432,435** | **455,529** | **442,971** |
| **Grand Total** | **6,911,266** | **7,182,856** | **7,621,004** | **7,885,989** | **7,957,555** |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. The Beer Store (TBS) and Winery store sales data were supplied by the Brewers of Ontario and individual Ontario wineries. The methodology used to estimate certain categories under Other Channels has been revised for 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

## Retail Price Breakdowns

### Spirits

| Examples as at March 31, 2004 for 750 mL bottle in Canadian dollars (40% Alcohol) | Imported U.S. | Imported Non – U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $3.5907 | $3.6163 | $4.0143 |
| Federal Excise Tax | $3.3198 | $3.3198 | $3.3198 |
| Federal Import Duty | $0.0000 | $0.0148 | $0.0000 |
| Freight | $0.2500 | $0.2125 | $0.0400 |
| **Total Landed Cost** | **$7.1605** | **$7.1634** | **$7.3741** |
| LCBO Markup | $10.3899 | $10.3869 | $10.1763 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$17.86** | **$17.86** | **$17.86** |
| Goods and Services Tax | $1.25 | $1.25 | $1.25 |
| Provincial Retail Sales Tax | $2.14 | $2.14 | $2.14 |
| **Consumer Price** | **$21.25** | **$21.25** | **$21.25** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.84 | $3.83 | $4.05 |
| Government of Canada | $4.57 | $4.58 | $4.57 |
| Government of Ontario | $12.84 | $12.83 | $12.62 |

### Wines

| Examples as at March 31, 2004 for 750 mL bottle in Canadian dollars | Imported U.S. | Imported Non – U.S. | Domestic 100% Ont. |
|---|---|---|---|
| Payment to Supplier | $3.6942 | $3.6345 | $4.0272 |
| Federal Excise Tax | $0.3842 | $0.3842 | $0.3842 |
| Federal Import Duty | $0.0000 | $0.0281 | $0.0000 |
| Freight | $0.1669 | $0.2038 | $0.0000 |
| **Total Landed Cost** | **$4.2453** | **$4.2506** | **$4.4114** |
| LCBO Markup | $2.7170 | $2.7204 | $2.5586 |
| LCBO Wine Levy | $1.1250 | $1.1250 | $1.1250 |
| LCBO Bottle Levy | $0.2175 | $0.2175 | $0.2175 |
| LCBO Environment Fee | $0.0893 | $0.0893 | $0.0893 |
| LCBO Rounding Revenue | $0.0100 | $0.0000 | $0.0000 |
| **Basic Price** | **$8.40** | **$8.40** | **$8.40** |
| Goods and Services Tax | $0.59 | $0.59 | $0.59 |
| Provincial Retail Sales Tax | $1.01 | $1.01 | $1.01 |
| **Consumer Price** | **$10.00** | **$10.00** | **$10.00** |
| **Revenue Distribution** | | | |
| Supplier (including freight) | $3.86 | $3.84 | $4.03 |
| Government of Canada | $0.97 | $1.00 | $0.97 |
| Government of Ontario | $5.17 | $5.16 | $5.00 |

## Beer

**Examples as at March 31, 2004 for a case of 24 x 341 mL bottles in Canadian dollars**

| | Imported U.S. | Imported Non – U.S. | Domestic |
|---|---|---|---|
| Payment to Supplier | $11.1949 | $11.0813 | $13.0619 |
| Federal Excise Tax | $2.2903 | $2.2903 | $2.2903 |
| Federal Import Duty | $0.0000 | $0.0000 | $0.0000 |
| Freight | $0.5248 | $0.6384 | $0.0000 |
| **Total Landed Cost** | **$14.0100** | **$14.0100** | **$15.3522** |
| LCBO In-store COS | $4.9595 | $4.9595 | $4.9595 |
| LCBO Out-of-store COS | $1.3422 | $1.3422 | $0.0000 |
| LCBO Markup | $4.1779 | $4.1779 | $4.1779 |
| LCBO Bottle Levy | $1.4404 | $1.4404 | $1.4404 |
| LCBO Environment Fee | $0.0000 | $0.0000 | $0.0000 |
| LCBO Rounding Revenue | $0.0000 | $0.0000 | $0.0000 |
| **Basic Price** | **$25.93** | **$25.93** | **$25.93** |
| Goods and Services Tax | $1.81 | $1.81 | $1.81 |
| Provincial Retail Sales Tax | $3.11 | $3.11 | $3.11 |
| Container Deposit | $2.40 | $2.40 | $2.40 |
| **Consumer Price** | **$33.25** | **$33.25** | **$33.25** |

### Revenue Distribution

| | | | |
|---|---|---|---|
| Supplier (including freight) | $11.72 | $11.72 | $13.06 |
| Government of Canada | $4.10 | $4.10 | $4.10 |
| Government of Ontario | $15.03 | $15.03 | $13.69 |
| Container Deposit | $2.40 | $2.40 | $2.40 |

### Revenue Distribution

| | Domestic Spirits | Domestic Wine | Domestic Beer |
|---|---|---|---|
| Supplier | 19% | 40% | 39% |
| Federal Government | 22% | 10% | 13% |
| Provincial Government | 59% | 50% | 41% |
| Deposit | | | 7% |

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven-Year Financial Performance Review

(values in $000s)

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| Sales and Other Income | $3,320,681 | $3,119,240 | $2,939,563 | $2,734,937 | $2,549,458 |
| Cost of Sales | $1,726,475 | $1,653,739 | $1,529,018 | $1,390,575 | $1,288,903 |
| Gross Profit | $1,594,206 | $1,465,501 | $1,410,545 | $1,344,362 | $1,260,555 |
| Per Cent | 48.01% | 46.98% | 47.98% | 49.16% | 49.44% |
| Operating Expenses | $548,778 | $525,959 | $489,633 | $468,090 | $414,861 |
| Net Income | $1,045,428 | $939,542 | $920,912 | $876,272 | $845,694 |
| **Statement of Cash Flow** | | | | | |
| Cash Flow from Operations | $1,093,721 | $985,800 | $965,372 | $917,010 | $876,196 |
| Change in Working Capital | $13,192 | $28,885 | $27,134 | $5,428 | ($15,198) |
| Cash Used for Investing Activities | ($52,573) | ($73,408) | ($55,359) | ($55,610) | ($54,443) |
| Cash Used for Provincial Transfers | ($1,040,000) | ($975,000) | ($905,000) | ($850,000) | ($800,000) |
| Decrease/Increase in Cash During the Year | $14,339 | ($33,723) | $32,147 | $16,828 | $6,555 |
| **Financial Position** | | | | | |
| Current Assets | $365,218 | $322,892 | $334,028 | $330,315 | $308,724 |
| Total Liabilities | $338,896 | $299,539 | $248,067 | $249,367 | $221,226 |
| Working Capital | $26,322 | $23,353 | $85,961 | $80,948 | $87,498 |
| Fixed Assets | $227,504 | $225,045 | $197,895 | $186,996 | $172,124 |
| Total Assets | $592,722 | $547,937 | $531,923 | $517,311 | $480,848 |
| **Financial Ratios** | | | | | |
| Profit Margin | 31.70% | 30.33% | 31.53% | 32.28% | 33.38% |
| Return on Shareholders' Equity | 417.84% | 353.04% | 333.78% | 332.19% | 357.17% |
| Current Ratio | 1.08 | 1.08 | 1.35 | 1.32 | 1.40 |
| **Statistics** | | | | | |
| Inventory Turnover | 7.32 | 7.46 | 5.95 | 5.29 | 5.26 |
| Number of Permanent Employees | 3,320 | 3,362 | 3,225 | 3,174 | 3,074 |
| Sales per Permanent Employee | $993,342 | $921,383 | $905,518 | $855,175 | $824,206 |
| Number of Stores | 598 | 597 | 599 | 601 | 602 |
| Number of Regular Products Listed | 3,449 | 3,476 | 3,487 | 3,478 | 3,496 |

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars.

| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **Statement of Earnings** | | | | | |
| $2,349,832 | $2,160,843 | $2,013,873 | $1,909,804 | $1,808,518 | $1,764,731 |
| $1,165,849 | $1,064,286 | $988,386 | $919,268 | $858,190 | $832,106 |
| $1,183,983 | $1,096,557 | $1,025,487 | $990,536 | $950,328 | $932,625 |
| 50.39% | 50.75% | 50.92% | 51.87% | 52.55% | 52.85% |
| $374,558 | $351,653 | $324,457 | $323,819 | $313,029 | $333,716 |
| $809,425 | $744,904 | $701,030 | $666,717 | $637,299 | $598,909 |
| **Statement of Cash Flow** | | | | | |
| $834,465 | $769,507 | $723,197 | $687,663 | $655,198 | $619,979 |
| ($8,651) | ($29,537) | $49,819 | $9,659 | $5,473 | ($15,824) |
| ($40,265) | ($25,524) | ($19,424) | ($26,256) | ($26,895) | ($14,753) |
| ($780,000) | ($745,000) | ($730,000) | ($680,000) | ($630,000) | ($585,000) |
| $5,549 | ($30,554) | $23,592 | ($8,934) | $3,776 | $4,402 |
| **Financial Position** | | | | | |
| $275,774 | $230,720 | $256,209 | $239,516 | $229,541 | $201,204 |
| $210,029 | $179,175 | $203,647 | $160,727 | $132,159 | $92,813 |
| $65,745 | $51,545 | $52,562 | $78,789 | $97,382 | $108,391 |
| $148,183 | $132,958 | $132,037 | $134,780 | $129,470 | $120,474 |
| $423,957 | $363,678 | $388,246 | $374,296 | $359,011 | $321,678 |
| **Financial Ratios** | | | | | |
| 34.80% | 35.03% | 35.11% | 35.33% | 35.61% | 34.24% |
| 406.31% | 403.63% | 352.13% | 302.76% | 285.63% | 269.90% |
| 1.31 | 1.29 | 1.26 | 1.49 | 1.74 | 2.17 |
| **Statistics** | | | | | |
| 5.40 | 5.53 | 5.02 | 5.07 | 4.92 | 5.02 |
| 3,014 | 2,934 | 2,828 | 2,803 | 2,824 | 2,743 |
| $771,623 | $724,866 | $706,079 | $673,273 | $633,656 | $637,678 |
| 600 | 596 | 595 | 596 | 597 | 600 |
| 3,366 | 3,098 | 2,960 | 3,149 | 3,053 | 2,824 |

LCBO

| | |
|---|---|
| 1,422 | Number of products with bonus AIR MILES Rewards |
| 81 | Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups |
| 60 | Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups |
| 54 | Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups |

## *Our Employees*

| | |
|---|---|
| 3,280 | Number of permanent full-time LCBO employees |
| 3,283 | Number of casual employees working in LCBO stores at fiscal-year end |
| 149 | Number of LCBO product consultants available to offer expert advice to customers |
| 1,782 | Number of Retail employees who received social responsibility training to help prevent service to minors or people who appear intoxicated |
| 368 | Number of Retail employees who passed the highest level of our three-level Product Knowledge Course this year |
| 364 | Number of Retail employees who passed the LCBO Service Knowledge Course this year |
| 73,720 | Number of calls handled by LCBO Infoline officers |
| 7,244 | Number of e-mails handled by LCBO Infoline officers |

## *Our Fundraising*

| | |
|---|---|
| $165,000 | Total amount raised by LCBO employees through donations and special events for the United Way 2003 campaign |
| $450,000 | Amount raised for charity through donation boxes in LCBO stores in calendar 2003 (Note: This includes funds raised for local charities in January and June, funds raised by the Royal Canadian Legion in November and the Canadian Cancer Society during "Daffodil Days" and proceeds of CD sales at checkouts.) |

## [illegible]

| | |
|---|---|
| 1,204,317 | Number of customers challenged for proof of age or sobriety by LCBO staff |
| 68,509 | Number refused service |
| 3,985 | Number of BYID tamper-resistant identification cards issued by the LCBO during 2003-04 |
| 28,000 | Total number of BYID cards issued as of March 31, 2004 |

## [illegible]

| | |
|---|---|
| 367,870 | Number of product tests carried out by LCBO's Quality Assurance laboratory |
| 1,034 | Number of products rejected by Quality Assurance for health concerns, consumer safety issues and other quality control problems |
| 299 | Number of seized products tested for enforcement purposes by Quality Assurance |
| 1 | Number of product recalls issued by Quality Assurance |


$3.3 billion sal
$1.04 billion dividend
1.2 million challenge
68,000 refused
LCBO
responsible
innovative
engaging
knowledgeable
For information about LCBO products and services,
visit us on the Internet at:
www.lcbo.com and www.vintages.com

# $1.115 BILLION

ANNUAL REPORT 2004-05

# THE ANNUAL REPORT

Under the *Liquor Control Act*, the LCBO is required to prepare an annual report to the Minister and the Treasurer of Ontario. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.





## MEMBERS OF THE LCBO BOARD

RING FISCAL 2004-05)

Andrew S. Brandt, *Chair and Chief Executive Officer*

Philip Olsson, *Vice Chair; Member, Audit and Governance Review Committee*

Jean Simpson, *Member; Chair, Audit and Governance Review Committee*

Linda Bramble, *Member; Member, Audit and Governance Review Committee*

Bev Hammond, *Member*

Gayle Christie, *Member; Chair, Audit and Governance Review Committee (term expired June 2004)*

Perry Miele, *Member (term expired April 2005)*

Bob Peter, *President and Chief Operating Officer*

## LETTER OF TRANSMITTAL

The Hon. David Caplan
*Minister of Public Infrastructure Renewal*

Dear Minister,

I have the honour to present you with the 2004-05 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
*Chair and Chief Executive Officer*

## CREDITS


The LCBO wishes to thank the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document. This report is also available at *www.lcbo.com*, under About LCBO.

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Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2004-05.

# LCBO

Discover the World

**Andrew S. Brandt**
Chair & Chief Executive Officer

October 2005

Dear LCBO Stakeholder:

Our Annual Report for 2004-05 describes how the LCBO transferred $1.115 billion to the province of Ontario – not including taxes. This amount, an increase of $75 million over the year before, was our tenth straight record dividend and second of more than one billion dollars.

Over these ten record years, the LCBO's dividends totalled $8.6 billion to help pay for health care, education and other government priorities.

We were able to achieve this by setting aggressive goals as part of our strategic planning process, benchmarking our progress against them, and working hard to not only meet but exceed these key targets. The success we have achieved to date owes much to a workforce that has embraced changes in the way we do business; a seasoned senior management team; well-informed and committed Board Members; and a supportive government. Our suppliers and their agents are also to be commended for working with us to ensure our customers can find the right product for any occasion, at the right price and in the right location.

The 2004-05 Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to transform itself into a leading Canadian retailer. It also highlights initiatives to promote responsible drinking and prevent impaired driving, help grow Ontario wine and craft beer sales, and further improve the LCBO shopping experience, supplier collaboration and employee knowledge and engagement with the customer.

With the support of the government, our Board Members, our employees and suppliers, we expect to transfer an 11th record dividend of $1.170 billion in fiscal 2005-06, while continuing to improve customer service, financial performance, return on capital investments, operational efficiency, environmental stewardship and social responsibility.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

55 Lake Shore Blvd. East, Toronto, Ontario M5E 1A4 Tel 416.864.2453 Fax 416.864.2476 www.lcbo.com

# MESSAGE FROM THE MINISTER

As Minister of Public Infrastructure Renewal, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2004-05.

Reporting to my Cabinet colleague, the Honourable Joseph Cordiano, who previously held responsibility for the LCBO, the agency worked during fiscal 2004-05 to meet the expectations of government, customers, taxpayers and other stakeholders.

As you will read in the pages that follow, the LCBO exceeded its plan by delivering a dividend of $1.115 billion to the province, excluding taxes, to support health care, education and other government priorities, programs, and services.

It also continued to lead in promoting social responsibility, improved service and product selection to customers, supported the efforts of the Ontario wine and craft beer industries to build market share, and introduced new programs to help reduce waste and preserve Ontario's environment.

During fiscal 2004-05, the government, under its Strategic Asset Management initiative, reviewed a number of provincial assets, including the LCBO, to ensure the public is well served and that taxpayers receive the maximum benefits from these assets.

The government concluded the greatest value could be achieved by maintaining public ownership of the LCBO. That said, the government expects the LCBO will further improve by:

- making operations even more efficient and cost-effective;
- contributing to the success of Ontario's domestic beverage alcohol industries;
- being governed according to the highest standards of transparency and accountability;
- helping to preserve Ontario's environment by reducing package waste; increasing diversion rates; improving all aspects of environmental management; reducing consumption of energy and utilities; and promoting re-use and conservation;
- continuing to work on its own, and in partnership with others, to promote responsible drinking and discourage high-risk activities such as drinking and driving, while maintaining vigilant responsible service to prevent sales to minors and intoxicated adults; and
- increasing revenues to government.

As the Minister responsible, I will work closely with the LCBO Board, staff and trade partners to ensure the LCBO continues to focus on making improvements to meet the expectations of its customers and the taxpayers of Ontario.

Sincerely,

The Honourable David Caplan
*Minister of Public Infrastructure Renewal and*
*Minister responsible for the Liquor Control Board of Ontario (LCBO)*

# MESSAGE FROM THE CHAIR AND CEO

**The LCBO increased its dividend to government for the 11th straight year in fiscal 2004-05. At $1.115 billion, it was our 10th straight record dividend and second ever of more than $1 billion, not including taxes.**

Thanks to the continuing efforts of its employees, management team and Board, and the support of our suppliers and government, the LCBO has transformed itself completely over these 10 record years. Every aspect of the shopping experience, from service to selection to social responsibility, has improved significantly over the past decade.

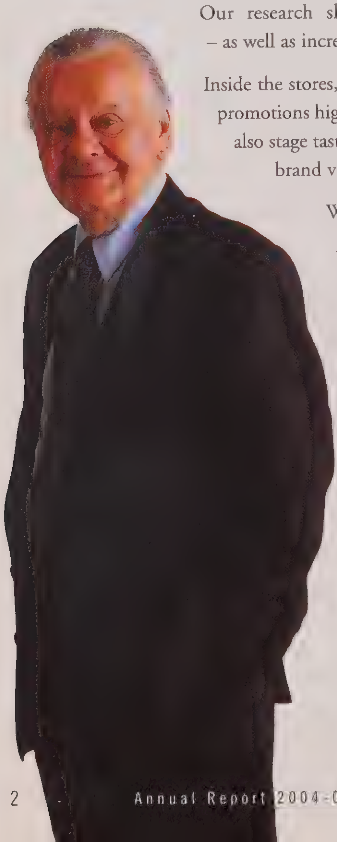
Guided by a rigorous long-term strategic planning process, and employing private-sector disciplines such as benchmarking, the LCBO has strived not just to be like other Canadian retailers but a leader in the field.

How far have we come towards that goal?

Ten years ago, in fiscal 1995-96, our net sales were $1.9 billion; operating expenses were 16.9 per cent of net sales; our dividend was $680 million, then a new record.

In fiscal 2004-05, net sales were $3.5 billion, an 83 per cent increase over 1995-96. Over the same time period, operating expenses dropped to 16.4 per cent of net sales. Our dividend of $1.115 billion was a 64-per-cent increase over 1995-96. Over this decade, our dividends to government totalled $8.62 billion.

We have invested in our store network to expand and renovate existing LCBO stores to current corporate standards. Guided by extensive customer research and market analysis, we have built new stores to meet the needs of urban and rural communities. The business case for each retail capital project is analyzed rigourously and must show a projected annual return of at least 12 per cent to proceed. A recent survey of 40 LCBO stores opened or relocated during the last five years shows this standard has consistently been met and often exceeded.



Our research shows that improved stores lead to more satisfied customers – and employees – as well as increased sales and greater efficiency.

Inside the stores, the changes have been equally dramatic. Every store across the province stages monthly promotions highlighting products from different geographical regions or product categories. Select stores also stage tastings and other programs to help customers discover the world of beverage alcohol, as our brand vision describes.

We have expanded training programs to help employees better inform customers about the products we sell and how they fit into a balanced lifestyle. All LCBO employees take mandatory product, service knowledge and responsible service courses, and many go on to become product consultants or specialists in the wines of Ontario, beer and spirits.

We have vastly improved the way product flows from suppliers to stores. We have worked with suppliers to develop new forecasting and replenishment processes; reduced excess inventory; trained employees in new product handling methods; and invested in a new point-of-sale system, Web-based ordering and other technology.

We have also worked with the Ontario wine industry and the government of Ontario on a strategy to help build market share for domestic products. We have helped pay the costs of municipalities that recycle glass and other liquor containers, contributing $30 million since 1998. At the same time we have raised an estimated $1 million a year for the United Way and other charitable causes. For several years, we have partnered with MADD Canada to launch high-profile advertising campaigns against impaired driving, and to develop Web sites and other materials that help parents talk with their children about alcohol.

We have indeed come a long way in 10 years. And we will continue to adapt and improve into the future.

At the time of writing (August 2005), the LCBO had just gone through two reviews, both announced in the 2004 provincial budget. One was the Beverage Alcohol System Review (BASR), convened by the government to examine the Ontario beverage alcohol marketplace, including the LCBO, The Beer Store and Ontario winery stores. The second was by the management consulting firm Deloitte & Touche, which the government commissioned to review LCBO operations only.

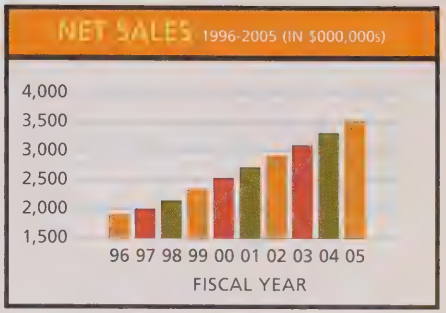
On July 18, the BASR panel recommended that the government withdraw from ownership and operation of the wholesale and retail beverage alcohol business. However, Finance Minister Greg Sorbara did not accept this recommendation, saying: "It is our very strong view that the public interest of Ontarians is best served by the continued public ownership of the LCBO.... The system is very well run. It is appreciated and liked across the province. It provides a high level of service and a high level of social responsibility.... When you look at what the LCBO has achieved, you see a major transformation to a very efficient retailer."

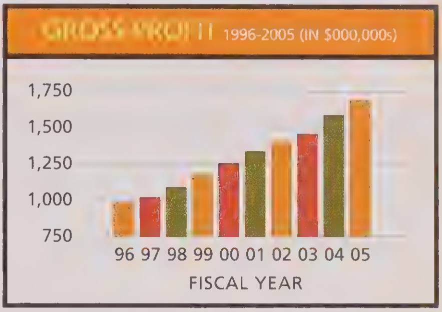
Deloitte & Touche came to a similar conclusion following its independent operational review of the LCBO in early 2005. Its review found that the LCBO is a well-managed organization that has successfully transformed itself into a modern retailer, while highlighting areas where the government could realize additional revenue by finding operating efficiencies and new revenue opportunities within the LCBO.

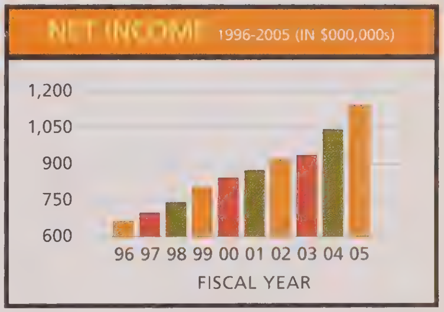
LCBO management, employees and Board Members recognize that the government's decision to maintain its role in beverage alcohol sales and distribution is not an endorsement of the status quo, but a call to further improve customer service, profitability and support of Ontario products, all in a socially and environmentally responsible way.

One thing our owners, customers and stakeholders can be assured of is that the LCBO will continue to embrace change as it has over the past decade, determined to remain a leader in Canadian retailing and customer service, a champion of social responsibility and environmental initiatives, and a reliable and ever-growing source of revenue for the government of Ontario.

Andrew S. Brandt
*Chair and Chief Executive Officer*
*August 2005*



# MESSAGE FROM THE PRESIDENT AND COO

As an organization dedicated to meeting and exceeding the expectations of its owners, customers, taxpayers and industry partners, the LCBO monitors and measures its performance in key areas.

We benchmark our progress against detailed sets of strategic and business objectives and key performance indicators, which you can read more about in the Management Discussion and Analysis that begins on page 6. We also collect and analyze extensive data on customer and employee satisfaction and listen to feedback from stakeholders that include the government of Ontario, our suppliers, industry groups and social responsibility advocates.

External recognition from Canada's retail industry is another indication that our ongoing efforts to improve are paying off.

We recently received such recognition from two prominent industry sources: the Retail Council of Canada (RCC) and *Marketing* magazine.

On June 6, the RCC presented the LCBO with an Excellence in Retailing Award for improving the way we do business with suppliers. A week later, *Marketing* named LCBO one of Canada's 10 best-managed brands, based on a survey of subscribers to *Canadian Business* and *Marketing Daily*.

"This should not be a surprise: Over the past 15 years, it has reinvented virtually every element of its business to offer compelling value to its customers. As a public enterprise, it has shown remarkable competence...quite an accomplishment for a monopoly."
*– Marketing magazine, June 13, 2005*

The LCBO was the only government agency and provincially focused organization on this list, which included such marketplace leaders as Tim Hortons, Loblaw, Canadian Tire and Shoppers Drug Mart.

The RCC award recognized the LCBO's Collaborative Planning, Forecasting and Replenishment (CPFR) program, under which the LCBO, suppliers and agents jointly develop sales forecasts, and track and monitor forecasts versus actual sales.

Launched with 12 agents in 2003-04 as a pilot, the project grew in fiscal 2004-05 to include 18 agents. The suppliers they represent account for $840 million in net sales, 24 per cent of the LCBO's business.

CPFR has helped ensure a continuous stream of products to meet the LCBO's requirements. Improving forecast accuracy also helps reduce stock-outs, improve customer satisfaction, and increase sales and profits for the LCBO and its suppliers.

Its success shows what we and our industry partners can achieve when we work towards the same goal: having the right product in the right place for our customers.

As I write this in August 2005, we are nearly half way through our 2003-08 five-year strategic plan and the results thus far have been very positive. We have exceeded our goals in such key areas as sales, margin, expenses, net income and dividend to the government of Ontario.

To be sure, there are challenges ahead. There won't be an Easter weekend in fiscal 2005-06, while there were two in fiscal 2004-05. We will continue to feel the effects of the transfer of Moosehead and Carlsberg brands from the LCBO to The Beer Store.

But the LCBO has shown over the years that it is more than capable of adapting to change, always seeking new ways to better fulfill our mandate. Excellence, innovation, responsibility and knowledge are the four core elements of our brand personality. Half way through our long-term plan, they are in evidence throughout the LCBO.

Bob Peter
*President and Chief Operating Officer*
*August 2005*

# CORPORATE STRUCTURE

The LCBO is a provincial government enterprise reporting to the Minister of Public Infrastructure Renewal. Its mission is: "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO has a Board of up to seven Members. They are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and the Minister of Public Infrastructure Renewal. Members are appointed for a term of up to five years. There are regular monthly Board meetings.

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high-quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Public Infrastructure Renewal
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Audit and Governance Review Committee

The Board has an Audit and Governance Review Committee whose members are elected annually by the Board. The committee is responsible for the reliability and accuracy of the LCBO's financial statements and for assessing the risks facing the organization and its management. It also reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles.

## Ethics and business conduct

Following a review of the LCBO's corporate governance practices, the Board approved a new policy for the conduct of the business of the corporation, which includes policies addressing conflict of interest, confidentiality, the outside activities of employees, officers and Members of the Board, gifts and entertainment, and human rights.

## Health and safety

The Board approves an annual health and safety policy and ensures it is kept informed of health and safety issues through regular reports at Board meetings.

## Store Planning and Development Committee

This management committee reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

## Listings Appeals Committee

This committee reviews appeals of denials of listing applications.

## Accountability

The LCBO is accountable to its stakeholders in a number of ways, including:

- its Annual Report, required to be tabled in the Provincial Legislature and available to all Ontarians in print or online at *www.lcbo.com*
- Annual audits of the LCBO financial statements and periodic value-for-money audits – conducted by the Office of the Auditor General – as well as value-for-money audits of specific LCBO programs, including store planning, conducted by Internal Audit
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- various statutory reporting requirements under the *Liquor Control Act* to the Minister and the Treasurer of Ontario
- compliance with Management Board's Agency Accountability Directives.

# BEYOND THE NUMBERS 2004-05

## HIGHLIGHTS (value in $000s)

| | 2003-04 | 2004-05 | % change |
|---|---|---|---|
| Dividend to Government | $1,040,000 | $1,115,000 | 7.2 |
| Net Sales and Other Income | $3,320,681 | $3,532,171 | 6.4 |
| Operating Expenses | $548,778 | $575,336 | 4.8 |
| Net Income | 1,045,428 | 1,146,810 | 9.7 |

## Management Discussion and Analysis of Operations

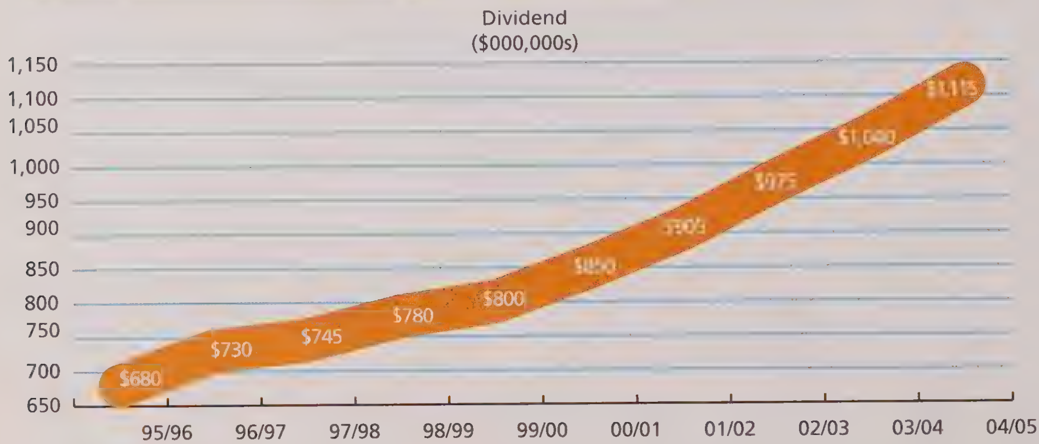
Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government enterprise, LCBO is not subject to these regulations. However, we have included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

## Dividend

We transferred a record $1.115 billion dividend to the provincial government in 2004-05, excluding all taxes. This is a $75 million increase over last year. It was the eleventh straight year we have increased our dividend, our tenth straight record year and the second consecutive dividend of more than $1 billion.

The following table gives a 10-year history of LCBO dividends transferred to the government of Ontario.

**Since 1995-96, the LCBO dividend has grown by 64 per cent or $435 million.**



## Government revenue disbursement

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $329 million in 2004-05.

| LCBO PAYMENTS TO GOVERNMENT | |
|---|---|
| Dividend | 59.2 per cent |
| Federal | 22.7 per cent |
| PST | 17.4 per cent |
| Municipal | 0.7 per cent |

| BREAKDOWN OF $1 IN NET SALES | |
|---|---|
| Product Cost | 51.2 per cent |
| Net income | 32.5 per cent |
| Retail and Marketing | 11.0 per cent |
| Administration and Other | 3.3 per cent |
| Warehousing and Distribution | 2.0 per cent |

*These charts show how LCBO profits are shared between various levels of government and the breakdown of $1 in net sales.*

## LCBO's external environment

With sales growth of 6.4 per cent in fiscal 2004-05, LCBO doubled the average growth rate of 3.2 per cent for total retail sector sales in Ontario. Economic conditions in Ontario were favourable for beverage alcohol sales, with unemployment rates remaining below 7.0 per cent and economic growth at a respectable 2.6 per cent in 2004. According to a survey of five of Canada's government-run beverage alcohol systems, Ontario ranked first in sales volume growth and second, behind British Columbia, for net sales growth.

## Sales by region

Three of LCBO's four retail regions surpassed their budgeted growth rates for net sales in fiscal 2004-05, the exception being the Western Region. Sales in the Eastern Region led the way, benefiting from the three-month strike at the Société des Alcools du Québec (SAQ). The estimated sales lift from the SAQ strike was $25 million.

The following chart shows how net sales in each region fared compared both to plan and the year before.

**SALES BY REGION**

| Region | 2004-05 (000s) | change from 2003-04 | variance from plan |
|---|---|---|---|
| Northern | $427,348 | 5.2% | 0.7% |
| Eastern | $732,706 | 9.5% | 2.6% |
| Central | $1,073,337 | 5.6% | 0.9% |
| Western | $817,728 | 5.4% | [illegible] |

## Same store sales

"Same stores" are defined as stores that have been open in their present location for more than two years. "Non-same stores" include stores open less than two years and closed stores. In 2004-05, non-same stores experienced a 28.4 per cent net sales increase over the year before, almost seven times the 4.4 per cent growth posted by same stores.

## Sales by channel

LCBO retail sales, which we define as sales to home consumers, grew by 6.7 per cent over last year to $2.77 billion. Retail sales as a share of total LCBO sales increased slightly from 78.6 per cent to 78.9 per cent. This favourable result is welcome since retail sales provide the highest margin of any channel.

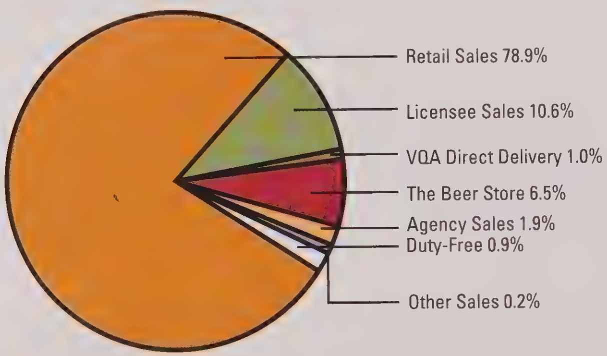
LCBO wholesale sales to The Beer Store (TBS) and licensees did not fare as well. Sales to TBS as a percentage of total LCBO sales decreased from 6.8 per cent to 6.5 per cent, due to the combination of poor weather, the NHL lockout and the transfer of distribution of Moosehead and Carlsberg brands from the LCBO to TBS. These products are now shipped directly from these suppliers as domestic products to TBS, rather than through the LCBO. As a result, the LCBO no longer records sales for these brands and is estimated to have lost $25 million in 2004-05. Continued strength in imported beer sales helped to maintain overall growth in the channel, with LCBO sales to TBS up 1.5 per cent from last year.

Licensee sales grew by 3.7 per cent in 2004-05, from $358 million to $371 million. However, licensee sales remain more than 4 per cent lower than the pre-SARS level of $381 million in 2002-03. The licensee industry, which comprises hotel and restaurant sales, was negatively affected this year by the NHL lockout and other factors.

LCBO sales to duty-free stores at land border points were relatively flat, growing 1.3 per cent over last year. This was almost $6 million below plan, due in part to the continued effects of the SARS scare and the weakness of the U.S. dollar. Duty-free sales growth has been dampened by continued weakness in the Ontario tourism market.

Agency sales grew by 19.6 per cent in 2004-05 to a total of $68 million with the opening of 13 new stores and increased awareness of existing stores. Agency stores now account for 1.9 per cent of LCBO sales.

BREAKDOWN OF LCBO SALES BY CHANNEL




The winery direct delivery program, which allows Ontario wineries to deliver their products directly to licensees instead of transferring them through the LCBO, continued to grow rapidly, increasing by 9.9 per cent in volume and 10.7 per cent in terms of net sales. In 2004-05, direct delivery sales represented 17.7 per cent of the total value of the licensee market for wine, compared to 16.4 per cent the previous year. Volume sales were 2.98 million litres, up from 2.67 million litres in 2003-04. Of this, more than one million litres were sold through the VQA replacement program, which was established in 2004-05 by the government of Ontario, the LCBO, the Wine Council of Ontario and the Grape Growers of Ontario to help Ontario wineries deal with the short grape crop that resulted from the harsh winter of 2003.

## LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), which is owned by Molson-Coors, Labatt (InBev SA) and Sleeman's, Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As of March 31, 2005, there were 1,685 outlets selling alcohol in Ontario.

Here is what the market looked like at March 31, 2005:


Note: When the LCBO's 597 stores and Ontario's 194 agency stores are combined, the total market share is approximately 46.9 per cent.

## Changes in market share

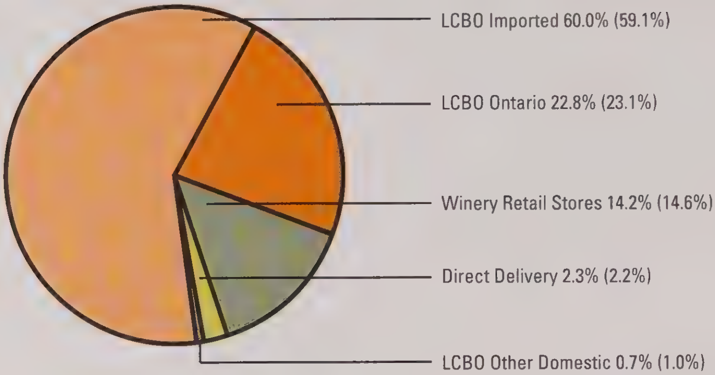
The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, as well as other legal, homemade, de-alcoholized beer and illegal channels, amounted to an estimated $8.0 billion in gross sales in 2004-05. The LCBO's market share by value increased from 47.8 per cent in 2003-04 to 48.6 per cent in 2004-05. Winery retail store sales grew by 7.1 per cent and increased market share to 2.5 per cent. The Beer Store lost market share in 2004-05, moving from 32.8 per cent to 31.3 per cent.

The total wine market in Ontario increased by 5.9 per cent in 2004-05 in terms of volume sales. Imports now hold a 60 per cent share of wines sold by the LCBO, up from 59.2 per cent the year before. Ontario and other domestic wine sales, sold both through the LCBO and through winery retail stores, declined from 39.9 per cent to 39.4 per cent. This was due in part to the short grape crop of 2003, which led to fewer VQA wines being produced. The continued growth in New World wine sales contributed to the increase in imported wine share.

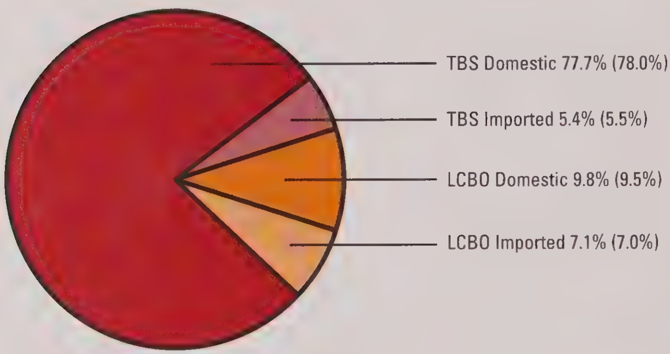
Direct delivery Ontario wine sales increased in terms of market share, from 2.2 per cent to 2.3 per cent, a continuing effect of the 1999 policy change that allowed domestic wineries to deliver products directly to licensees.

Beer sales in Ontario grew by 1.2 per cent by volume in 2004-05. LCBO beer sales grew by 3.3 per cent, excluding sales to TBS, compared to 0.8 per cent sales growth for TBS. As a result, LCBO's beer market share increased from 16.5 per cent in 2003-04 to 16.9 per cent in 2004-05, while TBS's market share declined from 83.5 per cent to 83.1 per cent during the same period. Consumers' tastes for premium and imported products contributed to the sales improvement at the LCBO.

## WINE VOLUME MARKET SHARE 2004-05
(2003-04 SHARE IN BRACKETS)




## BEER VOLUME MARKET SHARE 2004-05
(2003-04 SHARE IN BRACKETS)




## OPERATING RESULTS

*Net Income*

Net income grew by 9.7 per cent in 2004-05 to $1.15 billion, compared to $1.05 billion in 2003-04 and the plan number of $1.11 billion. This strong result was due to the combination of better-than-expected sales and gross margin returns, and tight controls that restricted total expense growth to just 4.8 per cent, lower than the planned growth rate of 5.4 per cent.

*Gross Margin*

Gross margin improved during the year as a result of lower than expected sales of lower-margin products, such as beer and coolers, as well as consumers trading up to premium products, higher sales through the retail channel and levy changes from the May 2004 provincial budget. These factors contributed to a 7.9 per cent increase in gross margin, from $1.571 billion to $1.695 billion. Gross margin also exceeded plan by 1.9 per cent. Expressed as a percentage of net sales, gross margin improved from 47.6 per cent to 48.4 per cent.

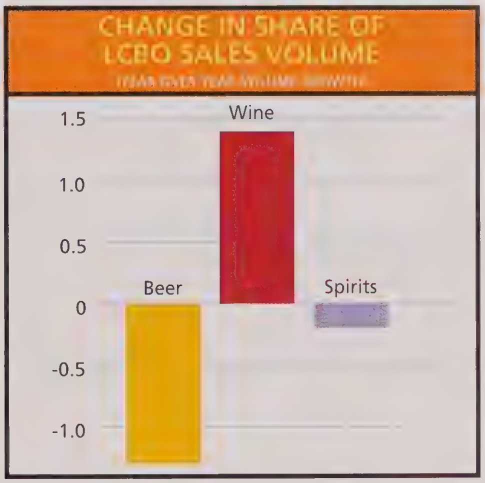
The May 2004 provincial budget included several changes to LCBO's markups. These included a 25-cent-per-litre increase in the volume levy applied to spirits and a nine-cent-per-litre increase in the volume levy for wine and spirit coolers. The wine levy increased by 12 cents per litre and the basic fee for beer by 4.5 cents per litre. The growth rate of the gross margin was also supported by an increase in the spirits floor price, from \$20.75 to \$21.25 for 750 mL, instituted in 2003-04.

The trend of the last several years towards premium products continued in 2004-05, which helped to increase LCBO's gross margin. For spirits, products priced higher than \$30 for a 750 mL bottle increased by 9.2 per cent during the year compared to a decrease of 0.4 per cent for other spirits products. Premium wine, defined as having a price of \$15 or more, increased by 11.7 per cent, compared to 5.4 per cent for other wines. The trend toward premium products extends to beer as well, but this has no effect on LCBO margins because beer markups are flat: they do not change along with the product's value (ad valorem), as is the case with wine and spirits. Nor is there any effect on LCBO margins from a countervailing trend to domestic value-priced beers, which grew by 14.4 per cent in volume and 13.5 per cent in value in fiscal 2004-05.

Wine was the largest contributor to the increase in the gross margin, accounting for 46.2 per cent of the increase. Spirits accounted for 40.7 per cent, beer for 12.9 per cent, and non-liquor products for the remainder. LCBO receives the highest margin per dollar of net sales on its spirits products at 56.4 cents per net sales dollar, while wine and beer margins per net sales dollar are 48.7 cents and 35.9 cents respectively.

Wine sales volumes as a share of total LCBO sales volume increased from 27.5 per cent to 29.0 per cent, while spirits decreased from 24.6 per cent to 24.4 per cent. Beer volumes decreased from 47.9 to 46.6 per cent of total volume sales, due to the shift in distribution of Moosehead and Carlsberg brands to The Beer Store. However, improvement in higher-margin wine and spirits products helped to offset the impact of this change on LCBO's margin.

Note: These margin numbers include sales through VINTAGES and therefore may not agree with business unit margins in the Product Trends sections of this report.



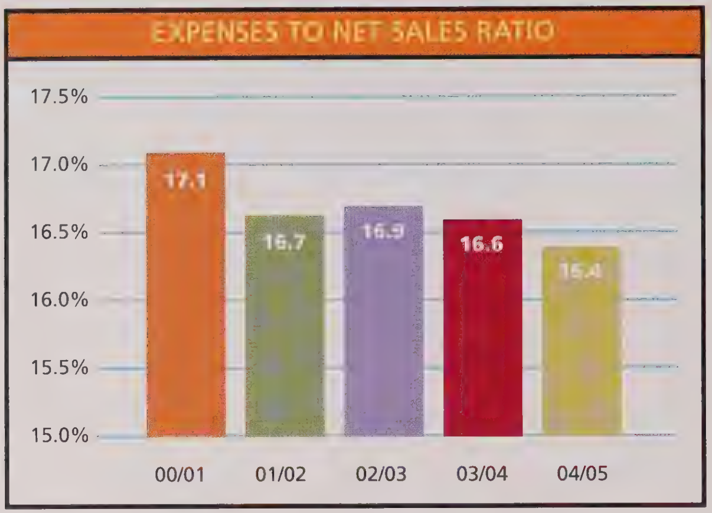


## Expenses

Expense control improved in 2004-05, as LCBO's expenses-to-net-sales ratio decreased from 16.6 per cent to 16.4 per cent. Overall expenses were \$575 million compared to \$549 million the previous year.

Head office expenses came in 10.8 per cent below budget, growing by just 2.1 per cent. Warehouse expenses increased by 5.9 per cent to \$45.6 million, 1.3 per cent above plan, largely due to increased deliveries to stores to support our Supply Chain initiative, which is directed toward improving product flow and reducing inventory investments. Store expenses grew by 6.5 per cent to \$347 million, 3.1 per cent above plan, due to higher than expected labour costs in stores and salaries associated with implementing a new point-of-sale system known as the Integrated Store Environment (ISE). This allows the LCBO to offer electronic gift cards and other customer conveniences expected of a major retailer. The system, which also improves the LCBO's sales audit functions, required stores to bring in extra staff while managers and other employees attended training sessions.

## Expense control improved in 2004-05, as our expenses-to-net-sales ratio decreased from 16.6 per cent to 16.4 per cent.

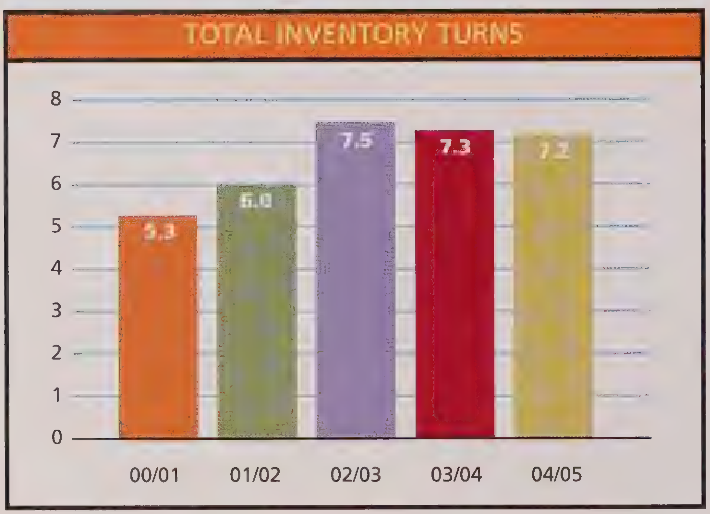



## Inventory turns

Total inventory turns weakened slightly during the year, falling to 7.2 turns from 7.3 last year, and were under the planned turnover of 7.4. The decline was due to slow sales of high-volume beer products during the summer months and the move of 6.6 million litres of Moosehead and Carlsberg brands out of our warehouse system. Beer inventory turns fell from 15.7 to 14.5 and wine turns fell from 6.4 to 6.3, while spirits turns increased from 8.2 to 8.3. VINTAGES inventory turns increased from 2.3 to 2.4 due to improved efficiency of movement through LCBO warehouses.

Wholesale inventory turns including VINTAGES held steady in 2004-05 at 11.2, but were lower than the 11.5 planned figure. Retail inventory turns of 14.3 in 2004-05 were lower than both the 14.5 figure posted last year and the 14.6 figure planned for 2004-05.

Inventory turns remain well above pre-2002-03 levels, when a concerted effort to reduce inventory levels by flowing product more efficiently was first undertaken.



## Financial and operating ratios

Income statement ratios in 2004-05 compared favourably to last year.

Total operating expenses met expectations at 16.4 per cent of net sales and improved from last year's result of 16.6 per cent. Administrative expenses stayed at 1.5 per cent of net sales, the same as last year and better than the planned ratio of 1.6 per cent. Operating expenses also improved from last year, from 12.2 per cent to 12.1 per cent. These improvements are attributed to higher net sales resulting from a shift to more premium and higher-margin products and improved expense control during the year.

Gross margin as a percentage of net sales exceeded both last year's ratio (47.6 per cent) and plan (47.8 per cent), growing by 0.6 percentage points to 48.4 per cent. This favourable result is due to a reduction in sales of lower-margin beer and cooler products and an increase in higher-margin spirits and wine products, as well as the increase in volume levies from the May 2004 provincial budget.

Net income as a percentage of net sales rose one full percentage point to 32.7 per cent, 0.9 per cent better than plan. This was due to enhanced margins and tighter expense control.

## Productivity ratios

To help track expenses and identify where improvements are occuring or are needed, LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses. A declining store expenses-to-sales ratio means that employees are becoming more productive.

**RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS**

| | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 |
|---|---|---|---|---|---|
| Store salary to sales | 7.8% | 7.3% | 7.3 % | 7.1% | 7.0% |
| Store expenses as a percentage of sales | 11.0% | 10.3% | 10.4% | 10.3% | 10.4% |
| Store salary per unit sold | $0.87 | $0.80 | $0.77 | $0.78 | $0.76 |
| Store expenses per unit sold | $1.22 | $1.12 | $1.10 | $1.13 | $1.13 |
| Unit sales per hour | 25.5 | 28.7 | 31.5 | 32.3 | 33.5 |
| Sales per customer | $27.86 | $28.10 | $28.51 | $29.38 | $30.80 |
| Sales per square foot | $1,693 | $1,752 | $1,755 | $1,800 | $1,859 |

Results for the productivity ratios were mixed. Performance by the retail channel was somewhat more favourable than the warehouse channel.

Store salaries as a percentage of net sales improved to 7.0 per cent in 2004-05 from 7.1 per cent in 2003-04, but came in slightly weaker than the plan of 6.8 per cent. Store salaries per unit sold met the planned value of $0.76 and improved from last year's $0.78. This favourable result is attributed to strong retail sales that offset a 4.4 per cent increase in salaries during the year resulting from cost of living increases and additional staff required to backfill during training for the ISE project.

Store expenses as a percentage of sales were 10.4 per cent and store expenses per unit sold were $1.13. Both were weaker than the plan numbers of 10.1 per cent and $1.12, respectively, due in large part to higher than expected labour costs related to the implementation of the ISE project.

Sales per customer improved significantly over the last five years, rising from $27.86 to $30.80 in 2004-05, which beat the target of $30.69. These results highlight the trend toward higher-quality products. Space rationalization helped sales per square foot increase by almost 10 per cent over the last five years, rising to $1,859 in 2004-05.

## AVERAGE SALES PER CUSTOMER


## AVERAGE SALES PER SQUARE FOOT


Both warehouse cost per case ratios (total expenses and salaries) rose during the year. Compared to 2003-04, warehouse salary cost per case increased by $0.08 to $0.90 while warehouse total cost per case rose by $0.08 to $1.11. Distribution cases per hour also weakened from 64 in 2003-04 to 62 in 2004-05 and missed the target of 63. These unfavourable results are the result of the change in the distribution of Moosehead and Carlsberg products, described on page 8.

## LOGISTICS – FINANCIAL AND OPERATING HIGHLIGHTS

| | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 |
|---|---|---|---|---|---|
| Warehouse salary cost per case | $0.76 | $0.77 | $0.83 | $0.82 | $0.90 |
| Warehouse cost per case | $0.95 | $1.00 | $1.10 | $1.03 | $1.11 |
| Logistics cases per hour | 64 | 64 | 65 | 64 | 62 |
| Logistics cost per case handled | $0.57 | $0.59 | $0.64 | $0.62 | [illegible] |
| Freight expense per case | $1.16 | $1.11 | $1.26 | $1.40 | [illegible] |
| Inbound freight as percentage of sales | 2.0% | 1.9% | 2.2% | 2.5% | 2.5% |
| Outbound freight as percentage of sales | 0.6% | 0.6% | 0.7% | 0.7% | 0.7% |

## Capital expenditures

As part of our five-year strategic initiative to help customers *Discover the World* of beverage alcohol, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards. Logistics capital expenditures declined significantly as we completed the expansion of our London warehouse and upgrading of other warehouses in 2004-05. Retail capital expenditures have now slowed somewhat as renovations and store openings in the largest markets have largely been completed.

**CAPITAL EXPENDITURES** (IN $000S, NUMBERS ROUNDED)

| ($000s) | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 |
|---|---|---|---|---|---|
| Retail | 37,614 | 30,813 | 45,497 | 31,896 | 27,981 |
| Retail Store Development and Real Estate | 2,370 | 644 | 1,072 | 351 | 1,639 |
| Information Technology | 7,375 | 14,259 | 12,758 | 6,877 | 6,917 |
| Logistics | 2,066 | 3,493 | 11,848 | 10,158 | 6,487 |
| Marketing Programs | 1,231 | 1,730 | 1,565 | 1,130 | 1,311 |
| Other Administrative Divisions | 5,033 | 4,795 | 2,321 | 3,022 | 3,128 |
| Total Capital Expenditures | 55,689 | 55,735 | 75,061 | 53,434 | 47,465 |

## Looking ahead

The 2005-06 fiscal year is expected to be one of continued improvement. Net sales are forecast at $3.7 billion, 4.9 per cent higher than 2004-05. Gross margin is forecast to improve by 4.3 per cent to $1.8 billion. This strong growth is expected despite the fact that there will be no Easter weekend during the fiscal year, while there were two in 2004-05. Each Easter weekend adds roughly $15 million to LCBO revenues. Nor will sales be lifted by an SAQ strike as they were in 2004-05, although sales in the Eastern Region continue to trend higher since the strike.

Sales growth is expected in all product categories except domestic beer, which will continue to feel the impact of the transfer of distribution of Carlsberg and Moosehead from LCBO to TBS for the first several months of the year.

Gross margin as a percentage of net sales is forecast to be 48.1 per cent, slightly lower than the 2004-05 rate of 48.4 per cent, due to ongoing changes in product mix.

Operating income is forecast to rise by 4.2 per cent to $1.2 billion. This will be achieved through continuing sales initiatives and ongoing expense control.

Ongoing inventory reduction programs and efficiency gains in the flow of product through the LCBO warehouse and retail store systems should help increase inventory turns. Retail inventory turns are forecast to rise by 0.3 turns to 14.6 per year and warehouse turns by 0.5 turns to 11.7 per year.

The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.170 billion, $55 million higher than in 2004-05.

# STRATEGIC PLAN UPDATE

## Discover the World 2003-08

In 2003, the LCBO launched a new five-year strategic plan and brand vision, *Discover the World*, designed to help educate customers about beverage alcohol, with friendly, knowledgeable employees serving as their tour guides. It set six key objectives:

1. To increase customer satisfaction
2. To promote the responsible use of beverage alcohol
3. To maximize returns to the people of Ontario by generating a total of $5.14 billion in dividends over five years (2003-08)
4. To develop and improve collaborative relationships with suppliers
5. To promote the growth of Ontario wine sales
6. To increase employee satisfaction

The following sections show how LCBO has worked to achieve these objectives to date.

### 1. TO INCREASE CUSTOMER SATISFACTION

**Key initiatives:** LCBO worked to improve customer satisfaction during fiscal 2004-05 by continuing to build new stores and renovate and relocate older outlets; conducting informative and engaging in-store promotions; offering more in-store product sampling (e.g., Thursday night tastings); implementing a new point-of-sale system to speed transactions at checkouts, enable quicker product searches, and provide a platform for electronic gift cards and other future initiatives; training employees to offer more knowledgeable advice about beer, wine and spirits; offering more gifts and electronic gift cards; and further improving supply chain practices and increasing deliveries to ensure stores offer shoppers the products they want.

**Results:** Every year, the LCBO commissions an in-depth Customer Tracking Study by an independent firm to gauge customer satisfaction. It is based on interviews with 2,400 people across Ontario who describe themselves as the primary LCBO customer in their household. In 2005, 78 per cent rated their shopping experience as eight or higher on a 10-point scale, compared to 73 per cent in 1998-99, when the study began. Fewer than one per cent said they were dissatisfied with the LCBO. Four out of 10 said the LCBO was one of their favourite places to shop.

## 2. TO PROMOTE THE RESPONSIBLE USE OF BEVERAGE ALCOHOL

**Key initiatives:** More than 1.4 million people were challenged at checkouts because they appeared underage or intoxicated. Working with MADD Canada, LCBO launched a public awareness campaign built around a 30-second TV commercial entitled "Heroes," which celebrated people who prevented friends from driving after drinking. A Web site was developed jointly by LCBO and MADD Canada to help parents talk with their kids about alcohol. Another campaign provided young people, their parents and educators with tools and information to help ensure safe proms. A Good Host kit, containing a range of sample-size toiletries, was made available to people who might have unexpected overnight guests after a party. As a responsible retailer, the LCBO initiated a new environmental strategy to reduce package waste; increase Blue Box recovery of LCBO containers to 80 per cent from 64 per cent; fully integrate responsible environmental stewardship into the LCBO's management culture; reduce utility consumption by 10 per cent; and promote reduction and reuse while helping to preserve Ontario's natural heritage. The LCBO contributed $5 million in fiscal 2004-05 to help fund municipal Blue Box programs (contributions to date since 1998 total $30 million), and raised nearly $1 million for provincial and national charitable organizations through its donation box program, employee United Way campaign, in-store tasting program and other measures.

**Results:** Tracking studies show LCBO commercials have a strong impact on their audiences. On the last three LCBO/MADD TV commercials aired in Ontario, between 77 and 88 per cent of viewers said watching them would make them likelier to take action to stop a friend from drinking and driving. Similar numbers said they would be more accepting of friends attempting to stop them from drinking and driving.

In a Corporate Reputation Study conducted in 2005 by Leger Marketing, the LCBO placed 15th out of the top 100 companies in Ontario, well ahead of other retailers such as The Beer Store, Wal-Mart and The Bay. According to the study, two-thirds of Ontario residents have a good opinion of the LCBO and feel it is a good company. People who had shopped at the LCBO in the past few months were particularly happy with it: 96 per cent of those who had made a recent purchase said they had a good opinion of the LCBO.


LCBO social responsibility initiatives in 2004-05 included a poster encouraging young people to celebrate prom night safely; a Good Host kit for people who might have unexpected overnight guests after a party; and a new four-bottle Envirobag that reduces waste and raises funds for environmental projects


## TO MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO BY GENERATING A TOTAL OF $5.[illegible] BILLION IN DIVIDENDS OVER FIVE YEARS (2003-08)

**Key initiatives:** The LCBO surpassed its key financial goals for fiscal 2004-05 by growing its business in a responsible manner. Key factors were: increasing efficiency of the supply chain that brings products from suppliers to stores; growing sales at a faster rate than labour costs; trading more customers up to premium products in all categories; promotions that increased sales of spirits, the most profitable category; a boost in wine sales in Eastern Ontario due to the 11-week strike at Quebec's SAQ; a solid return on investment in new and upgraded stores; volume levy increases implemented in the May 2004 provincial budget; and controls that drove down expenses as a percentage of net sales.

### KEY INCOME TARGETS (VALUES IN $000,000s)

| Indicator | Target | Achieved | Fulfilled |
|---|---|---|---|
| Sales | $3,484 | $3,505 | 100.6% |
| Margin | $1,664 | $1,695 | 101.9% |
| Expense | $570 | $575 | 100.6% |
| Income | $1,107 | $1,146 | 103.5% |
| Dividend | $1,065 | $1,115 | 104.7% |

## TO DEVELOP AND IMPROVE COLLABORATIVE RELATIONSHIPS WITH SUPPLIERS

**Key initiatives:** LCBO expanded its Collaborative Forecasting and Replenishment Program, under which the LCBO, suppliers and agents jointly develop sales forecasts, and track and monitor forecasts versus actual sales; made more programs and services available online to agents and suppliers; developed an 18-month promotional calendar that helps suppliers plan ahead for promotions that feature their products; held a summit meeting with suppliers to devise ways to increase customer interest in spirits and cocktails; increased its collaboration with suppliers on environmental initiatives; invited agents and suppliers to the LCBO Strategic Management Conference and other LCBO conferences to present their products.

**Results:** Product flow continued to improve in 2004-05. In-stock position of the most popular products increased in each of the last four years, from 89.2 per cent in fiscal 2001-02 to 91.8 per cent in fiscal 2004-05. Promotions such as *Shake it Up* and *Whisky Rocks* boosted sales of spirits by a combined $8.1 million and profits by $4.4 million and have been honoured with awards for Excellence in Retailing and Retail Marketing (2004) by the Retail Council of Canada. The RCC also honoured LCBO in 2005 with a Retail Technology award for proving that investing in technology can significantly improve delivery of service and profitability.

LCBO works closely with suppliers like Corby Distilleries Ltd. to improve the way product orders are forecast and replenished.

## 5. TO PROMOTE THE GROWTH OF ONTARIO WINE SALES


**Key initiatives:** LCBO stages a major promotion of Ontario wines every fall to increase awareness of their value and versatility. Employees have been trained as Ontario wine ambassadors – known internally as WOW (Wonderful Ontario Wine) Leaders – to inform customers and colleagues alike about Ontario wines. LCBO has also increased the amount of shelf space devoted to Ontario wines; promoted select "Ontario Superstars" in every sales period; brought new VQA discoveries to the attention of VINTAGES shoppers; and worked with the government of Ontario, the Wine Council of Ontario and the Grape Growers of Ontario to help Ontario wineries deal with the short grape crop that resulted from the harsh winter of 2003.

### LCBO ONTARIO WINE NET SALES (IN $000s)

| Year | Net sales | Previous Year | Change |
|---|---|---|---|
| 2002-03 | $212,514 | $204,185 | +4.1% |
| 2003-04 | $228,180 | $212,514 | +7.4% |
| 2004-05 | $243,337 | $228,180 | +6.6% |

### NUMBER OF ONTARIO WINERIES

| 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---|---|---|---|
| 95 | 109 | 109 | 123 | 128 |

## 6. TO INCREASE EMPLOYEE SATISFACTION

LCBO initiated a number of programs to increase employee satisfaction. These include product training that helps retail employees take greater responsibility for sections within their stores; Supply Chain initiatives that reduce product handling; leadership development programs for store managers and assistant store managers; and improvements to the point-of-sale system that eliminate or reduce tasks that take employees away from their primary function: providing knowledgeable and responsible service to customers.

**Results:** The most recent LCBO Employee Attitude Survey, conducted in the summer of 2004, showed significant improvement over previous years. The overall grand mean satisfaction score increased from 3.21 to 3.36 on a five-point scale. The consulting firm that conducted the confidential survey, Watson Wyatt Canada, said it was the largest one-year increase recorded by any of their clients. Some of the greatest improvements came in the most important areas, such as: understanding of the LCBO's five-year plan; its business performance; and the steps it is taking to achieve its strategic and business goals. Fifty-six per cent of respondents said they would be happy to spend the rest of their careers at the LCBO.


Giving employees better training and increased responsibilty for sections within their stores has raised employee satisfaction at LCBO to higher levels.

PRODUCT TRENDS

# WINES

**Mission: To provide our customers with an exceptional selection of quality wines at affordable and approachable prices.**

## WINES AT A GLANCE

**Sales in 2004-05:** $959 million
**Increase over year before:** $90 million (9.4 per cent)
**Increase over plan:** $9.6 million (1.0 per cent)
**Margin dollars:** $480 million
**Increase over year before:** $13.5 million (10.8 per cent)
**Key trend:** Continued growth in wines from top market share regions, especially those in the $10-$12 price range; ongoing growth in popularity of red wines.

Sales in the Wines business unit grew by a record 9.4 per cent over 2003-04 to a total of $959 million, 1.0 per cent over plan. (Its previous best growth rate was 8.1 per cent in 2003-04.) Volume sales increased by 5.9 per cent to 93 million litres. The discrepancy between the two growth rates shows that customers continue to move up to premium products, as does the growth in wines priced between $10-$12 (up 22.2 per cent in dollars). This far outstripped the growth rate of wines priced under $8 (2.6 per cent) and wines priced between $8 to $10 (8.2 per cent).

Key factors in the unit's success this year were:

- continued growth in wines from top producers Australia, Ontario and Italy
- exceptional growth from emerging markets like Spain, Portugal, South Africa and Chile
- increased sales in premium price bands
- ongoing growth in red wine sales (up 13.6 per cent vs. 6.8 per cent for white wines)
- stunning success of "concept wines" such as Yellow Tail shiraz
- a strike at the Société des Alcool du Québec (SAQ) that resulted in increased wines sales in LCBO stores in Eastern Ontario.
- a thematic promotion called *France ooh la la!* that helped slow a decline in sales of French wine.

The Wines business unit has three distinct categories: Ontario, New World and Europe. Here's how each fared in 2004-05.

**Ontario:** Net sales of Ontario wine grew by 7.6 per cent to $231 million; volume sales grew 5.5 per cent to 28 million litres. Margin dollars exceeded last year by 10.8 per cent and plan by 2.8 per cent. Fewer VQA wines were available in 2004-05, resulting in lost opportunities to trade customers up to premium Ontario wines. VQA wines grew by 6.0 per cent, compared to 10.6 per cent for non-VQA varietal wines, a reversal of the pattern of recent years. (For more information on how the LCBO works with the Ontario wine industry to build market share, please see page 19.)

Ontario ended the year with a 30.1 per cent market share, by volume, of still table wines sold through the LCBO (but excluding VINTAGES), roughly the same as last year. By value, that share was 24.1 per cent.

**New World:** New World wine sales grew by 19.4 per cent in dollars and 17.3 per cent in litres, paced by Australia (31.5 per cent growth). Australia, which now accounts for more than half of New World wine sales in LCBO stores, sits second only to Ontario in terms of table wine sales to the LCBO: $179 million vs. Ontario's $231 million. (It was in fifth place as recently as 2000-01,

behind Ontario, France, Italy and the U.S.) Australia owes its success primarily to red wines made in a fruit-forward style consumers enjoy, at prices they consider good value. Some 75 per cent of Australian wines sold in LCBO stores are reds.

One key to Australia's success in fiscal 2004-05 was a new brand called Yellow Tail. Rarely has one brand taken the market by storm as Yellow Tail did, recording $33.5 million in sales. If Yellow Tail were a country, it would have been the seventh largest supplier to the LCBO, well ahead of Spain, Portugal, South Africa or Germany. Priced under $12, however, Yellow Tail did restrain the unit's ability to trade customers up to higher price points.

Yellow Tail is considered a concept wine, a new trend that sees easy-drinking wines packaged in ways that are non-traditional, even offbeat, and where the brand defines the product more than the wine itself. This trend is expected to continue in 2005-06.

Australia's market share at year end was 19 per cent.

Here's how other New World producers fared in fiscal 2004-05.

- **United States**, up 2.0 per cent to $58 million and a 6.1 per cent market share
- **Chile**, up 9.4 per cent to $46 million (4.8 per cent market share)
- **South Africa**, up 24.4 per cent to $22 million (2.3 per cent market share)
- **British Columbia** up 9.1 per cent to $6.9 million (0.7 per cent market share)
- **Argentina**, up 25.8 per cent to $6.5 million (0.7 per cent market share)
- **New Zealand**, up 38.5 per cent to $5.4 million (0.6 per cent market share).

**Europe:** Sales of European wines were flat to last year in dollars and down 1.7 per cent in litres. The two biggest contributors to this set by far were France and Italy.

**Italy** grew its sales by 5.1 per cent to $141.5 million and has now passed France to sit third behind Ontario and Australia as a supplier to the LCBO Wines business unit. The central and northern regions of Italy have emerged as the most significant in the set, with sales of $82.7 million and $52.6 million respectively.

**France**, whose wine sales have been declining both in Ontario and internationally, ended the fiscal year with sales of $129.6 million, a marginal 0.8 per cent decrease over the year before. That decline would likely have been sharper were it not for a February promotion called *France ooh la la!* Featured products grew by 65 per cent during the month-long promotion; French wines as a whole by 35 per cent. The strike by employees at Quebec's liquor board, the SAQ, contributed an estimated $6 million (not including VINTAGES purchases) as shoppers from Quebec visited LCBO stores in Eastern Ontario in search of French wines and other products.

**Southern Europe**, which includes Spain, Portugal and Greece, grew by 7.2 per cent to $26 million, primarily due to the success of Spanish reds (up 11.1 per cent) and Portuguese reds (up 18.2 per cent).

**German** wine sales were largely flat to last year at $12.3 million.

**Eastern Europe**, which includes Hungary, Bulgaria, Croatia and Yugoslavia, declined by 4.9 per cent to sales of $6.5 million.

Other trends to watch:

- While imported fortified wines are declining as a whole, Port from Portugal rose by 10.6 per cent in both dollars and litres
- Imported sparkling wines grew by 3.6 per cent in dollars and 1.0 per cent in litres, the same rates as the year before
- Ontario sparkling wines grew by 2.5 per cent in dollars but declined by 1.2 per cent in litres; Ontario fortified wines increased by 4.4 per cent in dollars and 3.7 per cent in litres
- Flavoured wine drinks (made with wine, carbonated water and fruit flavouring) declined 2.3 per cent in Ontario, mirroring a similar drop in other markets.

## OUTLOOK FOR 2005-06

- overall sales are projected to rise by 7.3 per cent to $1.03 billion
- Ontario wine sales are projected to rise by 7.3 per cent to $248 million
- New World wines are projected to rise by 15.5 per cent to $401 million
- European wines are projected to remain flat to this year at $379 million
- margin dollars are projected to rise by 7.0 per cent to $514 million.

PRODUCT TRENDS

# SPIRITS

## Mission: To maximize long-term profitability for the LCBO.

### SPIRITS AT A GLANCE

**Sales in 2004-05:** $1.37 billion
**Increase over year before:** $68 million (5.2 per cent)
**Increase over plan:** $26 million (1.9 per cent)
**Margin dollars:** $793 million
**Increase over year before:** $44 million (5.9 per cent)
**Increase over plan:** $18 million (2.3 per cent)
**Key trends:** Strong growth in whiskies (especially Irish and American), liqueurs, vodka, rum and tequila

Sales in the Spirits business unit grew by 5.2 per cent over 2003-04 to a total of $1.37 billion, the best rate of growth in four years and higher than plan by 1.9 per cent. This was an important accomplishment for Spirits, which leads all LCBO business units in sales, margin dollars and rate, profit contribution and average price per unit sold.

Spirits account for just 15 per cent of litre sales but 41 per cent of net sales and 47 per cent of margin dollars. Its margin rate of 58 per cent was well above the corporate rate of 49.8 per cent.

These factors helped spur the growth of spirits in 2004-05:

- **Promotions:** Two promotions that debuted in 2003-04 – *Shake it Up* and *Whisky Rocks* – were repeated this year to encourage consumer interest in cocktails and other spirits. Prior to the summer *Shake it Up* promotion, spirit sales had been flat to the year before. They rose during the promotion and stayed strong the rest of the fiscal year. *Whisky Rocks*, held in October, built momentum for whiskies from the major producing nations going into the holiday season. *Shake it Up* is estimated to have increased spirit sales by $4.7 million, and profits by $2.4 million; for *Whisky Rocks*, those figures are $3.8 million and $2 million respectively.
- **Cocktails:** The rise in popularity of cocktails was a key driver of growth. LCBO capitalized by offering customers quick, easy recipes that have been taste-tested by experts from LCBO and the spirits industry.
- **Premium products:** The strategy to encourage customers to try premium products has worked well. Most of Spirits' sales growth came in premium and deluxe price bands. Premium brands were up 7.2 per cent and deluxe brands were up 9.9 per cent. Standard brands, by comparison, were up just 0.8 per cent.
- **Innovation:** Intriguing new flavoured products, especially those that make good cocktail ingredients, were well received by consumers. Some 14 per cent of Spirits' annual growth came from 85 new products introduced in 2004-05.
- **Gifts:** Spirit-based gift packs – 82 offerings compared to 79 in 2003-04 – grew only slightly (0.7 per cent) as many customers opted instead to buy electronic gift cards, which were available in all LCBO stores for the first time this holiday season.

- **Supply:** Improved inventory flow helped ensure stores had the products customers wanted, when they wanted them, especially during the holiday season.
- **Supplier collaboration:** LCBO suppliers helped drive growth in Spirits through their support of promotions and tie-ins to on-premise activities.

All segments within the business unit grew. The strongest growth came in two whiskey segments, American (up 11.3 per cent) and Irish (up 10.6 per cent), and in tequila (up 15.6 per cent). Other segments that did well in fiscal 2004-05 included:

- Vodka (up 8.1 per cent over the year before)
- Rum (up 6.4 per cent)
- Liqueurs (up 6.3 per cent)
- Scotch whisky (up 3.3 per cent)
- Canadian whisky (up 2.7 per cent).

The increase in Canadian whisky was particularly significant, given its relative importance in the category. About 28 per cent of all spirit sales come from Canadian whisky, while other segments with higher increases, such as Irish and American whiskies, hold much smaller category shares (0.4 per cent and 1.3 per cent respectively).

Duty-free spirit sales, which had declined by 12.9 per cent in 2003-04 due to reduced travel between Canada and the U.S., rebounded in 2004-05 with a 2.1 per cent increase.

The highest rates of growth were for premium and deluxe products in higher price bands. Excluding gift packs and duty-free sales, premium and deluxe products accounted for 94.5 per cent of the business unit's growth over the previous year.

**Domestic spirits** increased 4.0 per cent in value, 4.8 per cent in margin, and 1.2 per cent in litres. The fact that sales and margin increased at a faster rate than litre sales shows that customers were trading up to more premium products.

**Imported spirits** increased by 7.0 per cent in value, 7.5 per cent in margin and 4.4 per cent in litres. These figures also reveal a trend toward premium products.

## OUTLOOK FOR 2005-06

- sales are projected to rise by 2.8 per cent to $1.41 billion
- margin dollars are projected to rise by 2.6 per cent to $814 million
- domestic sales are projected to rise by 1.1 per cent, margin dollars by 1.0 per cent
- import sales are projected to rise by 5.3 per cent, margin dollars by 5.1 per cent
- holiday sales are projected to rise by 1.6 per cent to $15 million
- vodka, liqueurs and rum will continue to drive sales growth.

PRODUCT TRENDS

# BEERS & SPECIAL MARKETS

**Mission: To be a performance-driven and profitable business unit, fulfilling the diverse needs of our customers through easy to shop layouts, knowledgeable staff, and an assortment of world-renowned international beers and innovative Party Zone products.**

## BEERS & SPECIAL MARKETS AT A GLANCE

**Sales in 2004-05:** $844 million
**Increase over year before:** $10 million (1.2 per cent)
**Increase over plan:** $35 million (4.0 per cent)
**Margin dollars:** $319 million
**Increase over year before:** $15 million (5.0 per cent)
**Key trend:** Strongest growth in beer is at two opposite ends of the price range: low-price discount brands and premium brands

The Beers & Special Markets (BSM) business unit includes beers, Party Zone products such as coolers and cocktails-to-go, and a variety of other sets such as kosher products, saké, cider and non-liquor items. The unit had a challenging year in 2004-05, posting its lowest growth rate in more than a decade. Among the key factors:

- Poor spring weather hampered sales of beers and spirit coolers, which traditionally rise in warmer weather. This affected sales to both retail and wholesale customers.
- The hospitality industry continued to experience adverse conditions, not least of which was the NHL lockout that depressed sales to licensees and The Beer Store.
- After a strong debut, low-carb beers dramatically tapered off. Sales at the end of the fiscal year were roughly half of what they were in September 2004, when they were first introduced.

Despite these challenges, BSM grew its business in several ways:

- It continued to improve its selection of international and domestic premium beers tailored to Ontario's diverse population.
- A new training program equipped retail employees in 100 of the LCBO's top beer-selling stores to act as local beer specialists, known as "Beer Guys" and "Beer Gals." This was modelled on a program known as WOW (Wonderful Ontario Wines) that created staff advocates for Ontario wines.
- Sales of cocktails-to-go soared, largely as a result of exciting new product introductions that capitalized on two key trends: the general revival of cocktails and the desire for convenience.
- New and renovated stores featured larger beer and Party Zone sections with more refrigerated space.
- Demographics continue to favour this business unit as hundreds of thousands of Echo Boomers come of legal drinking age each year. The 20-29 age group consumes more beer and coolers than other age groups; today's consumer tends to discover premium products at a younger age than past generations.

Four key categories accounted for 88 per cent of the unit's sales in fiscal 2004-05.

**Imported non-U.S. beer:** the largest contributor to beer sales (47.2 per cent), and one of the fastest growing segments (up 6.4 per cent over the year before). The LCBO offered 140 non-U.S. beers from 39 countries, including 17 countries from which The Beer Store carries no products. Beers from Belgium and Eastern Europe enjoyed the greatest growth.

**Ontario beer:** the second largest sales contributor in BSM (39.8 per cent of beer sales) grew by 3.6 per cent in fiscal 2004-05. Competitive pricing drove strong growth in value brands. About 150 Ontario beers were offered in LCBO stores in 2004-05, including popular brands from major producers, as well as craft beers from Ontario microbreweries.

**Spirit coolers:** A key contributor to Party Zone sales, spirit coolers declined by 4.6 per cent, and against plan by 12.6 per cent, due mainly to poor summer weather and lower sales to licensees, and now account for 16.6 per cent of the business unit's sales. Coolers made with wine and beer account for less than two per cent of the unit's sales.

**Cocktails-to-go:** Sales of these products – bottled versions of classic cocktails that include the Bloody Caesar, gin and tonic and the Cosmopolitan – grew by 20 per cent as a result of renewed interest in cocktails and well-received new product introductions such as mudshakes. They now account for 3.8 per cent of the unit's sales.

Other categories within the set include **out-of-province beer** (down 30.3 per cent, largely as a result of the transfer of Moosehead and Carlsberg brands to The Beer Store); **U.S. beer** (down 3.6 per cent); **saké/Asian wines** (up 24.1 per cent); **ciders** (down 3.9 per cent); **kosher products** (down 6.8 per cent); and **non-liquor products** (up 6.0 per cent).

## OUTLOOK FOR 2005-06

- sales are projected to rise by 5.7 per cent to $892 million
- margin dollars are projected to rise by 2.8 per cent to $328 million
- LCBO's share of Ontario's beer market is projected to rise by 1.0 per cent
- a new strategy to showcase Ontario craft beers will be launched by the LCBO in partnership with the Ontario Craft Brewers
- improvements in product flow will help ensure optimum stock levels especially in peak selling seasons (summer and Christmas).

PRODUCT TRENDS

# VINTAGES

**Mission: To achieve $1 billion in sales over the next four years by giving customers the optimum assortment of fine wines and premium spirits with an intense quality focus at every price point and at every customer touch point.**

## VINTAGES AT A GLANCE

**Sales in 2004-05:** $189.3 million

**Increase over year before:** $13.3 million (7.6 per cent)

**Increase over plan:** -$7.3 million (-3.7 per cent)

**Margin dollars:** $80 million

**Increase over year before:** $4.6 million (6.1 per cent)

**Increase over plan:** -$4.9 million (-5.8 per cent)

**Key trends:** Oversupply of wine world-wide is moderating prices as customers seek value across all price points. There has been significant price resistance at the ultra-premium level. Wines in the $15-$20 range show the strongest growth. Wines from New World regions continue to outperform European wines.

VINTAGES is the fine wine and premium spirits department of the LCBO. In 2004-05, VINTAGES released 4,465 new products into the market, through a variety of channels, including retail releases, its *Classics Catalogue*, direct marketing programs and special events. VINTAGES' average retail price (per 750 mL) for red wine was $43.65; white wine $34.20; and spirits $112.20.

VINTAGES' sales grew by 7.6 per cent, above the LCBO's corporate rate of 5.5 per cent, but missed its plan numbers for net sales and margin, due mainly to:

- a severe decline in Australian red wine growth, primarily shiraz, at the premium level – down 40 per cent from last year
- a decline in sales of Italian red wine – down 17 per cent from the previous year
- the rise in value of the euro, which makes wines from France and Italy less competitive.

VINTAGES is primarily a red wine business. In fiscal 2004-05, 64.0 per cent of sales came from red wine; 20.0 per cent from white wine; 5.0 per cent from spirits; 3.1 per cent from VQA Icewine; 2.7 per cent from fortified wine; 2.5 per cent from Champagne; and the rest from other products such as rosé and gifts.

The growth of white table wine (9.5 per cent) outpaced red table wine (5.8 per cent) for the first time in several years. VQA Icewine had an outstanding year with sales of $5.9 million, up 17.7 per cent over the year before as a result of expanded promotions and improved assortment.

VINTAGES' largest share of sales come from France, Italy, Australia, the U.S. and Canada (79 per cent market share combined), followed by New Zealand, Portugal, Chile, Spain and Great Britain (15 per cent market share combined).

While France's share of the wine business in Ontario has been in decline, the LCBO's February promotion, *France ooh la la!*, was a great success in VINTAGES. VINTAGES devoted an entire release to French wines during the promotion to focus consumer attention on different wine regions, and to showcase the versatility and quality of French wines. Sales increased by 70 per cent during the promotion and caused a reversal in the downward trend.

Wines in the $15-$20 price band grew the fastest of any in VINTAGES, due in part to the success of the Wines of the Month and VINTAGES *FOOD & DRINK* Discovery programs (see below).

VINTAGES makes products available through the following programs:

**Retail Releases:** this core program makes up 62 per cent of sales ($117 million in fiscal 2004-05). Every two weeks, some 100 new products in a wide range of price points are made available in 190 select LCBO stores. More than half of the selection is new to the Ontario consumer. VINTAGES Releases regularly highlight a particular country, region, sub-region, producer or varietal and have been revamped to include more educational material tied to release products.

**Essentials:** a core group of 85 world-renowned and popular brands that are continuously available in the LCBO retail network. Sales of Essentials products were $46 million – 24.5 per cent of VINTAGES' business – and 25 per cent higher than last year.

**Bordeaux Futures:** an opportunity for customers to buy fine Bordeaux classified growths, before they are bottled, usually at a significant discount to the eventual release price. Sales in fiscal 2004-05 were $5.3 million – 2.8 per cent of VINTAGES' business – and 40.7 per cent lower than last year. (Results vary widely year to year depending on the perceived quality of vintages being offered.)

**VINTAGES' *Classics Catalogue*:** offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rarities. Published three times a year, the catalogue accounted for $16.6 million in sales in fiscal 2004-05 – 8.7 per cent of VINTAGES' business.

**VINTAGES Wines of the Month:** highlights two featured products priced between $15 and $22. It's designed to introduce customers to wines that offer exceptional value at little or no risk. Sales this year were $6.0 million – 3.2 per cent of VINTAGES' total business – and 9.4 per cent higher than last year.

**VINTAGES *FOOD & DRINK* Discovery:** a new program launched in June 2004 to bring exceptional "Discoveries" by VINTAGES buyers to a new and expanded audience through the LCBO consumer publication *FOOD & DRINK*. The five products released this year had sales of more than $2.5 million.

**Auction:** In November 2004, VINTAGES staged Ontario's third commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. More than 90 per cent of the 1,552 lots on offer were sold, bringing in a total of $2.3 million.

**Events:** more than 3,000 people attended VINTAGES events and tastings in fiscal 2004-05. These ranged from small winemakers' dinners to large-scale tastings where participants could buy on-site the products they tasted. VINTAGES events generated $750,000 in sales this year.

**VINTAGES VQA Discoveries:** VINTAGES now features a different VQA wine from Ontario or B.C. 10 times a year, priced between $15 and $20. VQA Discoveries had sales of $325,000 this year.

**Virtual VINTAGES:** allows a customer to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. This provides our customers with greater overall selection with no added investment in inventory on our part. Sales in fiscal 2004-05 were $3.9 million – an increase of 7.4 per cent over last year.

## OUTLOOK FOR 2005-06

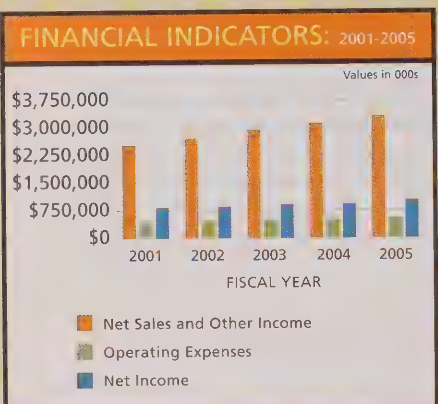
- net sales projected to increase to $192.3 million
- margin dollars projected to increase to $82.4 million
- sales of Ontario VQA table wines projected to increase 10 per cent, Icewine by 15 per cent
- VINTAGES Releases to be issued bi-weekly beginning in August 2005
- VINTAGES will continue to work with the Retail division to improve the way its products are merchandised.

# FINANCIAL OVERVIEW


The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

## OPERATIONS

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 600 | 599 | 597 | 598 | 597 |
| Number of Permanent Employees | 3,174 | 3,225 | 3,362 | 3,320 | 3,352 |
| Number of Regular Products Listed | 3,478 | 3,487 | 3,476 | 3,449 | 3,349 |

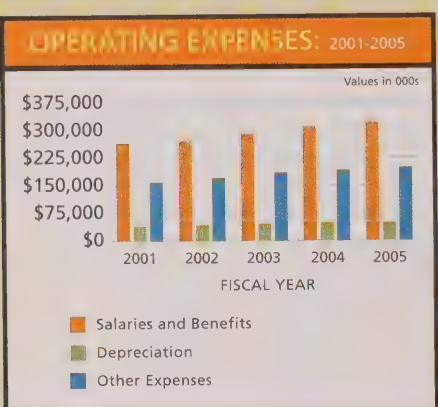



The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

## FINANCIAL (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,734,937 | 2,939,563 | 3,119,240 | 3,320,681 | 3,532,171 |
| % Change/Previous Year | 7.28% | 7.48% | 6.11% | 6.46% | 6.37% |
| Operating Expenses | 468,090 | 489,633 | 525,959 | 548,778 | 575,336 |
| As a % of Net Sales & Other Income | 17.12% | 16.66% | 16.86% | 16.53% | 16.29% |
| Net Income | 876,272 | 920,912 | 939,542 | 1,045,428 | 1,146,810 |
| As a % of Net Sales & Other Income | 32.04% | 31.33% | 30.12% | 31.48% | 32.47% |

Note: The LCBO refers to sales in three different ways: first, gross sales, which include the federal Goods and Services Tax and the Provincial Sales Tax; second, net sales, which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 32.




## BREAKDOWN OF OPERATING EXPENSES (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Salaries and Benefits | 266,929 | 272,594 | 291,762 | 305,664 | 322,094 |
| Depreciation | 40,546 | 44,260 | 47,602 | 49,917 | 50,703 |
| Other Expenses | 160,615 | 172,779 | 186,595 | 193,197 | 202,539 |
| Total Operating Expenses | 468,090 | 489,633 | 525,959 | 548,778 | 575,336 |

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

## REVENUE PAYMENTS

### RECEIVER GENERAL FOR CANADA (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: | | | | | |
| Excise taxes and Customs duties | 278,430 | 284,520 | 294,203 | 307,366 | 308,514 |
| Goods and Services Tax (GST) | 79,056 | 84,885 | 97,459 | 103,464 | 119,444 |
| Remitted by others: | | | | | |
| Excise taxes, GST and other duties/taxes | 361,917 | 355,868 | 303,508 | 347,231 | 329,810 |
| GST remitted on sales through agency stores | 2,244 | 2,349 | 3,264 | 4,423 | 5,294 |
| **Total** | **721,647** | **727,622** | **698,434** | **762,484** | **763,063** |

### TREASURER OF ONTARIO (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: on account of profits | 850,000 | 905,000 | 975,000 | 1,040,000 | 1,115,000 |
| Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales of liquor | 255,347 | 275,072 | 288,884 | 308,134 | 328,753 |
| Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits | 524,110 | 530,799 | 526,650 | 487,589 | 488,988 |
| Remitted by others:** Ontario Retail Sales Tax on sales through Beer Stores and Ontario Winery Retail Stores | 177,302 | 186,308 | 194,320 | 196,733 | 197,890 |
| Ontario Retail Sales Tax on sales through agency stores | 3,847 | 4,027 | 5,596 | 7,582 | 9,076 |
| **Total** | **1,810,606** | **1,901,206** | **1,990,449** | **2,040,037** | **2,139,707** |

### ONTARIO MUNICIPALITIES (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: realty taxes*** | 11,121 | 12,003 | 11,253 | 12,280 | 13,678 |
| **Total Revenue Payments** | **2,543,374** | **2,640,831** | **2,700,136** | **2,814,801** | **2,916,447** |

* The Alcohol and Gaming Commission of Ontario, The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

*** Note: includes property taxes on leased properties.

## LCBO VOLUME SALES (VALUES IN 000s OF LITRES)

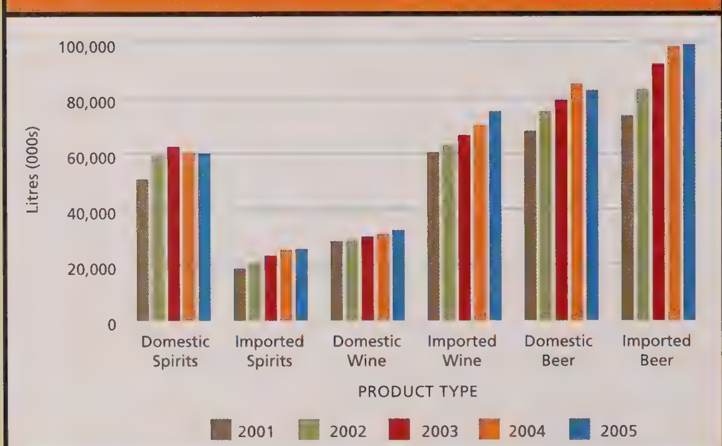
| PRODUCT TYPE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Domestic Spirits | 34,286 | 33,897 | 33,570 | 33,704 | 33,754 |
| Imported Spirits | 18,369 | 19,085 | 19,557 | 20,301 | 21,191 |
| **Total Spirits** | **52,655** | **52,982** | **53,127** | **54,005** | **54,944** |
| Domestic Wine | 28,190 | 28,445 | 29,912 | 30,964 | 32,528 |
| Imported Wine | 60,258 | 63,076 | 66,504 | 70,062 | 75,150 |
| **Total Wine** | **88,448** | **91,521** | **96,416** | **101,025** | **107,678** |
| Domestic Beer | 67,677 | 75,045 | 79,289 | 84,950 | 82,273 |
| Imported Beer | 73,688 | 83,212 | 91,909 | 98,352 | 99,228 |
| **Total Beer** | **141,365** | **158,258** | **171,198** | **183,302** | **181,501** |
| Domestic Spirit Coolers | 16,789 | 25,791 | 29,076 | 26,910 | 26,569 |
| Imported Spirit Coolers | 482 | 1,781 | 3,877 | 5,333 | 4,710 |
| Domestic Wine Coolers | 499 | 549 | 426 | 233 | 136 |
| Imported Wine Coolers | 368 | 263 | 228 | 253 | 236 |
| Domestic Beer Coolers | 627 | 363 | 108 | 168 | 581 |
| Imported Beer Coolers | 68 | 125 | 332 | 304 | 51 |
| **Total Coolers** | **18,833** | **28,872** | **34,047** | **33,200** | **32,282** |
| **Total Domestic** | **148,068** | **164,091** | **172,381** | **176,930** | **175,840** |
| **Total Imported** | **153,233** | **167,542** | **182,407** | **194,603** | **200,565** |
| **Total** | **301,301** | **331,633** | **354,787** | **371,532** | **376,406** |

| PRODUCT TYPE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 14,926 | 16,235 | 16,720 | 17,327 | 17,920 |
| Sales by The Beer Store and On-site Brewery Stores | 643,721 | 654,017 | 656,093 | 660,077 | 651,593 |

Note: The 2005 figures for sales by The Beer Store (TBS) and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales litres, 47,947,000 were sales to TBS. Prior year figures have been restated.

## SHARE OF VOLUME SALES


## LCBO SALES VOLUME BY PRODUCT TYPE: 2001-2005



## SHARE OF VALUE SALES

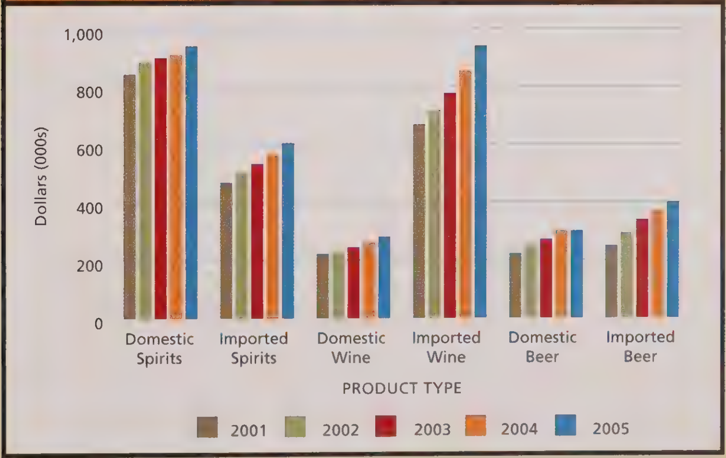

## LCBO VALUE SALES (VALUES IN $000s)

| PRODUCT TYPE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Domestic Spirits | 765,840 | 764,465 | 761,892 | 781,353 | 809,302 |
| Imported Spirits | 470,874 | 499,645 | 516,510 | 541,882 | 582,440 |
| **Total Spirits** | **1,236,714** | **1,264,110** | **1,278,402** | **1,323,235** | **1,391,741** |
| Domestic Wine | 223,510 | 231,411 | 245,972 | 263,396 | 284,158 |
| Imported Wine | 671,633 | 721,127 | 780,390 | 859,107 | 945,402 |
| **Total Wine** | **895,143** | **952,538** | **1,026,362** | **1,122,502** | **1,229,560** |
| Domestic Beer | 224,273 | 254,271 | 274,262 | 303,662 | 301,607 |
| Imported Beer | 252,096 | 296,752 | 340,900 | 372,231 | 403,456 |
| **Total Beer** | **476,369** | **551,023** | **615,163** | **675,892** | **705,063** |
| Domestic Spirit Coolers | 81,231 | 125,018 | 141,747 | 133,457 | 136,221 |
| Imported Spirit Coolers | 2,704 | 10,136 | 21,083 | 29,151 | 26,968 |
| Domestic Wine Coolers | 1,954 | 2,147 | 1,617 | 914 | 552 |
| Imported Wine Coolers | 2,010 | 1,442 | 1,261 | 1,402 | 1,309 |
| Domestic Beer Coolers | 2,073 | 1,203 | 421 | 826 | 2,762 |
| Imported Beer Coolers | 264 | 537 | 1,547 | 1,201 | 213 |
| **Total Coolers** | **90,236** | **140,483** | **167,675** | **166,951** | **168,024** |
| **Total Domestic** | **1,298,882** | **1,378,516** | **1,425,911** | **1,483,607** | **1,534,600** |
| **Total Imported** | **1,399,580** | **1,529,639** | **1,661,691** | **1,804,974** | **1,959,788** |
| **Non Liquor and Other** | **15,863** | **12,141** | **10,087** | **9,316** | **10,995** |
| **Total** | **2,714,325** | **2,920,296** | **3,097,690** | **3,297,897** | **3,505,383** |

| PRODUCT TYPE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 123,739 | 137,994 | 146,502 | 153,621 | 164,153 |
| Sales by The Beer Store and On-site Brewery Stores | 2,072,360 | 2,181,920 | 2,254,756 | 2,311,230 | 2,312,479 |

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store (TBS) consist of net sales plus GST. Category totals produced here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales, $199,827,000 were sales to TBS. Prior year figures have been restated.

## LCBO SALES VALUE BY PRODUCT TYPE:



## PRODUCT LISTINGS

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| DOMESTIC | | | | | |
| Spirits | 550 | 486 | 460 | 472 | 430 |
| Wine | 499 | 481 | 469 | 432 | 434 |
| Beer | 407 | 426 | 444 | 473 | 433 |
| IMPORTED | | | | | |
| Spirits | 636 | 675 | 652 | 691 | 680 |
| Wine | 1,111 | 1,163 | 1,187 | 1,124 | 1,143 |
| Beer | 283 | 256 | 264 | 257 | 229 |
| **Total Regular Listings** | **3,486** | **3,487** | **3,476** | **3,449** | **3,349** |
| Vintages Wines and Spirits | 3,108 | 2,858 | 3,127 | 4,250 | 4,464 |
| Duty-Free Listings | 212 | 224 | 240 | 221 | 229 |
| Consignment Warehouse and Private Stock | 6,225 | 5,444 | 6,813 | 7,286 | 8,204 |
| **Total Product Listings** | **13,031** | **12,013** | **13,656** | **15,206** | **16,246** |

Note: Product listing figures for Consignment Warehouse and Private Stock are estimated based on invoices produced by Specialty Services. The total does not include products discontinued during the fiscal year.

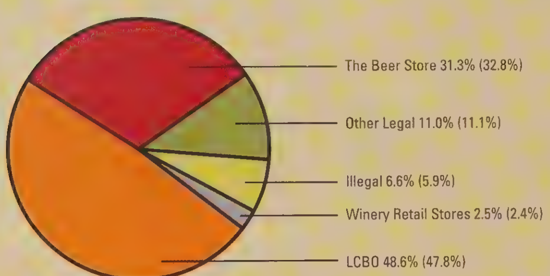
## LCBO SALES CHANNEL SUMMARY (VALUES IN $000s)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| LCBO Total Sales | 3,177,916 | 3,417,729 | 3,622,049 | 3,857,394 | 4,101,684 |
| Brewers Retail Total Sales | 2,381,289 | 2,522,993 | 2,607,077 | 2,638,488 | 2,639,319 |
| Winery Retail Stores | 147,178 | 162,539 | 174,284 | 182,349 | 195,280 |
| OTHER CHANNELS | | | | | |
| Legal | 1,000,660 | 1,017,104 | 957,073 | 667,687 | 702,261 |
| Homemade | 49,025 | 48,013 | 50,852 | 148,163 | 157,301 |
| De-alcoholized Beer | 20,870 | 20,191 | 19,125 | 20,503 | 17,293 |
| Illegal | 405,918 | 432,435 | 455,529 | 442,971 | 523,572 |
| **Grand Total** | **7,182,857** | **7,621,004** | **7,885,989** | **7,957,555** | **8,336,711** |

The methodology used to estimate certain categories under Other Channels was revised in 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below. Last year's market share appears in brackets.

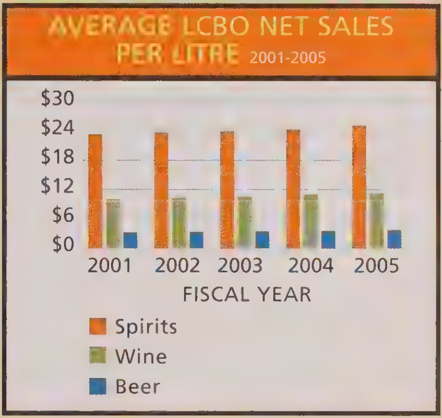
## SHARE OF ONTARIO BEVERAGE MARKET (2003-04 SHARE IN BRACKETS)

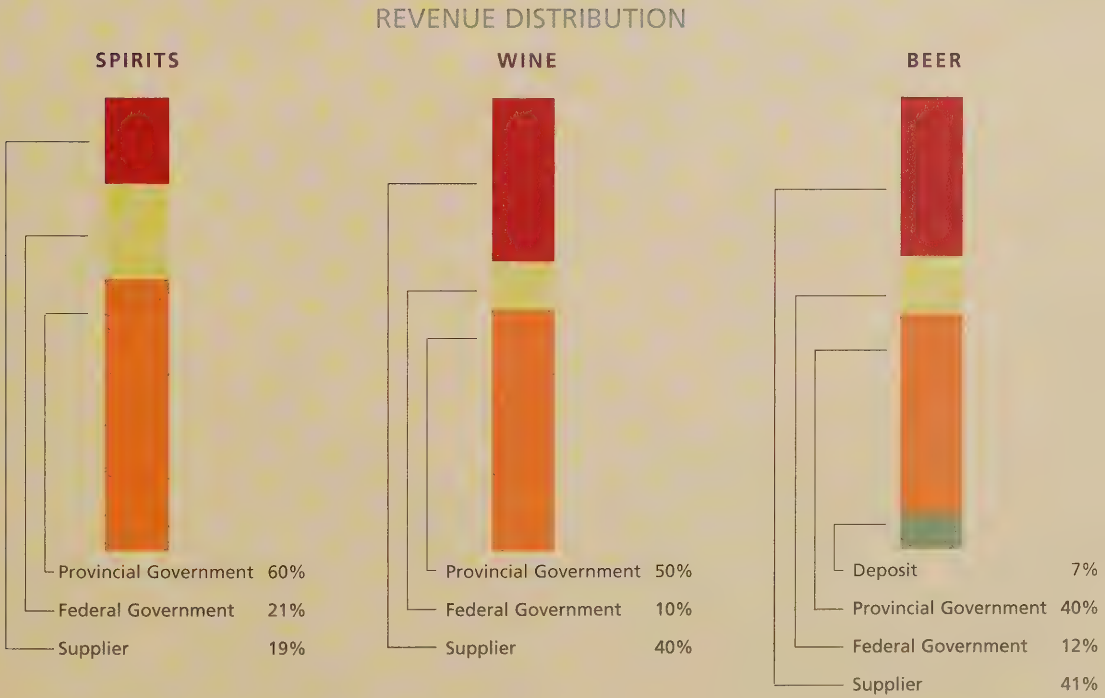


## AVERAGE LCBO NET SALES PER LITRE (PRICES EXCLUDE GST AND PST)

| PRODUCT TYPE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Spirits | $23.49 | $23.86 | $24.06 | $24.50 | $25.33 |
| Wine | $10.12 | $10.41 | $10.65 | $11.11 | $11.42 |
| Beer | $3.37 | $3.48 | $3.59 | $3.69 | $3.88 |
| Average Transaction Value Per Customer | $30.51 | $31.05 | $31.90 | $32.97 | $34.52 |

Note: Includes Coolers



## PRODUCT CATEGORY SHARE BY VOLUME

| CANADIAN SPIRITS | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Canadian Whisky | 22.2% | 19.0% | 17.4% | 17.6% | 17.6% |
| Canadian Rum | 10.7% | 9.3% | 8.6% | 8.7% | 8.7% |
| Canadian Vodka | 10.7% | 9.4% | 8.9% | 9.1% | 9.1% |
| Canadian Liqueur | 2.0% | 1.8% | 1.9% | 2.1% | 2.3% |
| Spirit Coolers | 24.1% | 32.1% | 33.9% | 31.3% | 30.9% |
| Canadian Dry Gin | 1.5% | 1.2% | 1.0% | 0.9% | 0.9% |
| Other | 2.1% | 1.4% | 1.2% | 0.8% | 0.6% |
| **IMPORTED SPIRITS** | | | | | |
| Scotch | 5.4% | 4.7% | 4.4% | 4.5% | 4.6% |
| Liqueur | 4.8% | 4.0% | 3.7% | 3.7% | 3.6% |
| Miscellaneous Liquors | 3.6% | 3.6% | 3.5% | 3.2% | 3.4% |
| Vodka | 4.3% | 4.0% | 4.1% | 4.3% | 4.8% |
| French Brandy | 2.4% | 2.1% | 2.0% | 2.1% | 2.1% |
| Spirit Coolers | 0.7% | 2.2% | 4.5% | 6.2% | 5.5% |
| Other | 5.6% | 5.2% | 4.9% | 5.7% | 6.0% |
| **Total Spirits (000s litres)** | **69,726** | **80,363** | **85,856** | **86,062** | **86,035** |
| **CANADIAN WINES** | | | | | |
| White Table | 15.4% | 15.2% | 14.9% | 14.9% | 14.6% |
| Red Table | 8.2% | 8.2% | 8.5% | 9.0% | 9.2% |
| Rosé Table | 0.8% | 0.8% | 0.9% | 1.0% | 1.0% |
| 7% Sparkling | 1.8% | 1.7% | 1.6% | 1.5% | 1.4% |
| Fortified | 1.8% | 1.7% | 1.6% | 1.5% | 1.5% |
| Wine Coolers | 0.6% | 0.6% | 0.5% | 0.2% | 0.1% |
| Other | 3.4% | 2.6% | 2.0% | 1.6% | 1.3% |
| **IMPORTED WINES** | | | | | |
| White Table | 25.6% | 25.1% | 24.4% | 23.7% | 22.9% |
| Red Table | 31.5% | 32.8% | 34.3% | 35.7% | 37.6% |
| Rosé Table | 2.7% | 2.5% | 2.3% | 2.0% | 1.7% |
| Sparkling | 2.4% | 2.4% | 2.4% | 2.3% | 2.2% |
| Fortified | 2.3% | 2.1% | 2.0% | 1.9% | 1.8% |
| Wine Coolers | 0.4% | 0.3% | 0.2% | 0.3% | 0.2% |
| Other | 3.7% | 4.2% | 4.5% | 4.9% | 4.7% |
| **Total Wine (000s litres)** | **85,848** | **88,809** | **91,608** | **96,342** | **102,077** |
| **CANADIAN BEER** | | | | | |
| Ontario Beer | 45.2% | 44.0% | 41.7% | 40.8% | 42.3% |
| Other Canadian Beer | 6.0% | 6.4% | 7.2% | 8.2% | 5.6% |
| **IMPORTED BEER** | | | | | |
| U.S. Beer | 15.2% | 12.5% | 11.6% | 9.8% | 8.9% |
| Other Imported Beer | 33.5% | 37.1% | 39.4% | 41.1% | 43.1% |
| Saké | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| **Total Beer (000s litres)** | **128,784** | **144,665** | **157,173** | **168,101** | **164,827** |
| **Total (000s litres)** | **284,358** | **313,837** | **334,637** | **350,505** | **352,939** |

Notes: These figures exclude Private Stock orders and other head office sales.

## PRODUCT CATEGORY SHARE BY VALUE

| CANADIAN SPIRITS | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Canadian Whisky | 26.9% | 25.4% | 24.4% | 24.3% | 23.9% |
| Canadian Rum | 12.7% | 12.1% | 11.7% | 11.6% | 11.5% |
| Canadian Vodka | 12.7% | 12.2% | 12.1% | 12.2% | 12.2% |
| Canadian Liqueur | 2.1% | 2.1% | 2.3% | 2.5% | 2.7% |
| Spirit Coolers | 6.2% | 9.0% | 9.9% | 9.0% | 8.8% |
| Canadian Dry Gin | 1.8% | 1.6% | 1.4% | 1.2% | 1.2% |
| Other | 2.0% | 1.3% | 1.1% | 0.9% | 0.7% |
| **IMPORTED SPIRITS** | | | | | |
| Scotch | 8.5% | 8.2% | 8.0% | 8.0% | 8.0% |
| Liqueur | 6.7% | 6.3% | 6.0% | 5.9% | 5.7% |
| Miscellaneous Liquors | 5.1% | 5.7% | 5.7% | 4.9% | 5.0% |
| Vodka | 4.8% | 5.0% | 5.3% | 5.6% | 6.3% |
| French Brandy | 3.8% | 3.7% | 3.9% | 3.9% | 3.8% |
| Spirit Coolers | 0.2% | 0.7% | 1.5% | 2.0% | 1.7% |
| Other | 6.4% | 6.6% | 6.6% | 8.0% | 8.5% |
| **Total Spirits ($000)** | **1,314,263** | **1,392,692** | **1,433,253** | **1,483,032** | **1,551,321** |
| **CANADIAN WINES** | | | | | |
| White Table | 12.3% | 11.9% | 11.6% | 11.3% | 10.5% |
| Red Table | 6.7% | 6.7% | 6.9% | 7.1% | 7.2% |
| Rosé Table | 0.6% | 0.6% | 0.6% | 0.7% | 0.7% |
| 7% Sparkling | 1.1% | 1.0% | 1.0% | 0.9% | 0.8% |
| Fortified | 1.3% | 1.2% | 1.1% | 1.0% | 1.0% |
| Wine Coolers | 0.2% | 0.2% | 0.2% | 0.1% | 0.0% |
| Other | 2.5% | 1.9% | 1.6% | 1.4% | 1.7% |
| **IMPORTED WINES** | | | | | |
| White Table | 24.4% | 23.9% | 23.1% | 22.3% | 22.0% |
| Red Table | 38.1% | 40.0% | 41.8% | 43.5% | 44.9% |
| Rosé Table | 2.3% | 2.1% | 1.9% | 1.6% | 1.3% |
| Sparkling | 4.5% | 4.4% | 4.4% | 4.2% | 4.2% |
| Fortified | 2.7% | 2.5% | 2.3% | 2.2% | 2.1% |
| Wine Coolers | 0.2% | 0.2% | 0.1% | 0.1% | 0.1% |
| Other | 3.2% | 3.5% | 3.6% | 3.7% | 3.5% |
| **Total Wine ($000)** | **857,960** | **913,281** | **972,246** | **1,056,979** | **1,151,035** |
| **CANADIAN BEER** | | | | | |
| Ontario Beer | 44.0% | 42.2% | 39.6% | 38.7% | 39.4% |
| Other Canadian Beer | 5.5% | 6.0% | 6.7% | 7.7% | 5.6% |
| **IMPORTED BEER** | | | | | |
| U.S. Beer | 12.3% | 10.6% | 10.0% | 8.3% | 7.8% |
| Other Imported Beer | 37.8% | 40.9% | 43.4% | 45.0% | 46.8% |
| Saké | 0.4% | 0.3% | 0.3% | 0.3% | 0.4% |
| **Total Beer ($000)** | **448,855** | **521,534** | **584,149** | **641,364** | **653,391** |
| **Total ($000)** | **2,621,078** | **2,827,508** | **2,989,647** | **3,181,375** | **3,355,746** |

Notes: These figures exclude Private Stock orders and other head office sales.

The following tables shows LCBO spirits, wine and beer sales by country of origin for fiscal 2004–05.

## SPIRITS 2004–05

| COUNTRY | NET SALES | LITRES |
|---|---|---|
| CANADA | $945,295,569 | 60,303,106 |
| GREAT BRITAIN | $187,583,749 | 9,466,090 |
| U.S.A. | $71,369,792 | 3,267,936 |
| FRANCE | $94,695,396 | 2,762,987 |
| IRELAND | $57,053,811 | 2,043,472 |
| SWEDEN | $41,898,897 | 1,831,499 |
| ITALY | $33,461,265 | 1,357,276 |
| MEXICO | $33,887,752 | 1,084,032 |
| GERMANY | $18,419,512 | 709,930 |
| NEW ZEALAND | $4,298,017 | 532,878 |
| FINLAND | $11,573,507 | 491,674 |
| POLAND | $8,285,179 | 320,421 |
| AUSTRALIA | $1,480,615 | 271,454 |
| BARBADOS | $5,062,165 | 198,049 |
| RUSSIAN FEDERATION | $4,652,327 | 188,391 |
| GREECE | $4,175,408 | 183,344 |
| JAMAICA | $4,837,836 | 182,710 |
| NETHERLANDS | $3,252,153 | 149,566 |
| SOUTH AFRICA | $3,638,917 | 141,727 |
| SWITZERLAND | $2,969,540 | 96,570 |
| CUBA | $1,939,736 | 71,500 |
| CROATIA | $997,861 | 37,553 |
| PORTUGAL | $987,968 | 36,803 |
| BERMUDA | $893,637 | 35,873 |
| SPAIN | $854,811 | 33,137 |
| HUNGARY | $690,263 | 27,782 |
| PUERTO RICO | $825,957 | 21,938 |
| GUYANA | $582,139 | 20,392 |
| REPUBLIC OF YUGOSLAVIA | $603,908 | 20,200 |
| AUSTRIA | $921,034 | 18,844 |
| DENMARK | $350,821 | 17,668 |
| LEBANON | $436,529 | 15,442 |
| DOMINICAN REPUBLIC | $442,449 | 14,536 |
| BAHAMAS | $366,844 | 11,680 |
| CZECH REPUBLIC | $939,204 | 10,185 |

## SPIRITS CONTINUED

| COUNTRY | NET SALES | LITRES |
|---|---|---|
| PEOPLE'S REPUBLIC OF CHINA | $261,486 | 8,620 |
| INDIA | $197,545 | 8,274 |
| CHILE | $202,618 | 8,054 |
| BRITISH VIRGIN ISLANDS | $158,727 | 7,760 |
| UKRAINE | $193,122 | 7,376 |
| TRINIDAD | $192,870 | 4,950 |
| ISRAEL | $77,878 | 3,411 |
| TURKEY | $96,197 | 3,226 |
| MACEDONIA | $71,443 | 2,861 |
| BRAZIL | $64,012 | 2,177 |
| PHILIPPINES | $38,420 | 1,608 |
| SAINT LUCIA | $28,383 | 1,345 |
| BULGARIA | $12,684 | 427 |
| COLOMBIA | $13,741 | 319 |
| BELGIUM | $6,670 | 246 |
| GUATEMALA | $4,402 | 45 |
| BOLIVIA | $50 | 3 |
| **TOTAL** | **$1,551,344,816** | **86,037,347** |

## WINE 2004-05

| COUNTRY | NET SALES | LITRES |
|---|---|---|
| CANADA | $252,900,228 | 29,614,271 |
| ITALY | $196,796,945 | 17,029,346 |
| FRANCE | $199,968,116 | 15,003,731 |
| AUSTRALIA | $210,195,079 | 14,416,003 |
| U.S.A. | $103,424,351 | 8,970,260 |
| CHILE | $52,096,874 | 4,827,648 |
| SOUTH AFRICA | $26,661,850 | 2,481,676 |
| PORTUGAL | $24,762,411 | 1,980,220 |
| SPAIN | $24,973,278 | 1,892,116 |
| GERMANY | $20,456,847 | 1,886,332 |
| GREAT BRITAIN | $4,555,046 | 970,618 |
| ARGENTINA | $7,870,869 | 771,617 |
| NEW ZEALAND | $12,543,666 | 680,526 |
| GREECE | $4,190,632 | 504,202 |
| HUNGARY | $3,284,311 | 399,869 |
| BULGARIA | $1,929,296 | 233,750 |
| REPUBLIC OF YUGOSLAVIA | $926,733 | 111,201 |
| JAPAN | $1,096,344 | 80,076 |
| ISRAEL | $783,081 | 66,063 |
| IRELAND | $222,035 | 56,488 |
| CROATIA | $545,690 | 51,902 |
| MEXICO | $466,445 | 39,430 |
| ROMANIA | $328,285 | 33,763 |
| JAMAICA | $333,408 | 33,189 |
| POLAND | $387,215 | 27,784 |
| AUSTRIA | $415,746 | 27,518 |
| MACEDONIA | $178,160 | 24,615 |
| DENMARK | $201,763 | 17,086 |
| REPUBLIC OF KOREA | $314,759 | 13,852 |
| GEORGIA | $130,392 | 8,412 |
| LEBANON | $120,634 | 7,395 |
| URUGUAY | $75,936 | 5,560 |
| CYPRUS | $54,681 | 4,480 |
| RUSSIAN FEDERATION | $62,088 | 3,509 |
| SWITZERLAND | $59,830 | 2,356 |
| LUXEMBOURG | $21,340 | 1,063 |
| JORDAN | $4,268 | 242 |
| TUNISIA | $2,938 | 177 |
| CZECH REPUBLIC | $2,716 | 121 |
| SLOVENIA | $1,295 | 107 |
| PEOPLE'S REPUBLIC OF CHINA | $784 | 72 |
| REPUBLIC OF MOLDOVA | $393 | 35 |
| MOROCCO | $29 | 4 |
| **TOTAL** | **$1,153,346,787** | **102,278,685** |

## BEER 2004-05

| COUNTRY | NET SALES | LITRES |
|---|---|---|
| CANADA | $293,737,587 | 79,035,535 |
| NETHERLANDS | $82,625,107 | 18,595,113 |
| MEXICO | $79,184,759 | 16,795,317 |
| U.S.A | $51,437,054 | 14,670,580 |
| GERMANY | $32,467,633 | 8,851,926 |
| BELGIUM | $31,078,854 | 6,715,674 |
| IRELAND | $15,727,095 | 3,359,819 |
| GREAT BRITAIN | $14,006,427 | 3,273,861 |
| DENMARK | $10,977,717 | 3,120,150 |
| POLAND | $10,241,422 | 2,811,925 |
| CZECH REPUBLIC | $7,846,716 | 2,096,202 |
| BRAZIL | $6,100,335 | 1,244,396 |
| JAMAICA | $1,995,185 | 444,620 |
| FRANCE | $1,765,955 | 421,472 |
| AUSTRIA | $1,222,731 | 386,302 |
| TRINIDAD | $1,460,723 | 351,995 |
| PEOPLES REPUBLIC OF CHINA | $1,314,734 | 337,004 |
| SLOVAKIA | $1,199,439 | 330,725 |
| SINGAPORE | $668,207 | 198,449 |
| JAPAN | $742,971 | 190,260 |
| SOUTH AFRICA | $574,481 | 168,019 |
| RUSSIAN FEDERATION | $555,547 | 166,939 |
| PORTUGAL | $611,759 | 164,772 |
| UKRAINE | $556,201 | 152,476 |
| ITALY | $510,379 | 120,403 |
| LITHUANIA | $374,883 | 107,836 |
| NEW ZEALAND | $338,068 | 83,387 |
| THAILAND | $307,417 | 76,663 |
| CUBA | $274,254 | 62,968 |
| CROATIA | $221,795 | 60,164 |
| LATVIA | $163,824 | 46,644 |
| PHILIPPINES | $201,795 | 44,343 |
| HUNGARY | $120,233 | 32,611 |
| GREECE | $129,366 | 31,051 |
| KENYA | $133,507 | 27,948 |
| INDIA | $44,532 | 10,986 |
| CYPRUS | $42,865 | 9,887 |
| AUSTRALIA | $32,109 | 7,516 |
| SLOVENIA | $23,461 | 6,984 |
| VIETNAM | $22,891 | 5,353 |
| TAIWAN | $14,649 | 4,960 |
| BAHAMAS | $167 | 43 |
| **TOTAL** | **$651,054,834** | **164,623,278** |

Note: Net value represents net sales including VINTAGES sales but excluding Private Stock sales. In fiscal 2004-05, the LCBO sold products from 73 different countries.

# AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Economic Development and Trade:

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2005 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Toronto, Ontario*
*June 24, 2005*

**J.R. McCarter**, CA
Auditor General

## BALANCE SHEET AS AT MARCH 31, 2005

| ASSETS (IN $000S) | 2005 | 2004 |
|---|---|---|
| CURRENT | | |
| Cash and cash equivalents | 106,273 | 60,724 |
| Accounts receivable, trade and others | 23,700 | 28,436 |
| Inventories | 278,267 | 270,246 |
| Prepaid expenses | 11,371 | 5,812 |
| | **419,611** | **365,218** |
| LONG-TERM | | |
| Capital assets (Note 5) | 223,709 | 227,504 |
| | **643,320** | **592,722** |
| LIABILITIES AND RETAINED INCOME | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | 315,241 | 298,755 |
| Current portion of accrued benefit obligation (Note 3) | 4,981 | 4,924 |
| | **320,222** | **303,679** |
| LONG-TERM | | |
| Accrued benefit obligation (Note 3) | 37,462 | 35,217 |
| Retained income | 285,636 | 253,826 |
| | **643,320** | **592,722** |

Commitments and Contingencies (Notes 6 and 8)
See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
*Chair and Chief Executive Officer*

Jean Simpson
*Board Member; Chair, Audit and Governance Review Committee*

## STATEMENT OF INCOME AND RETAINED INCOME

| YEAR ENDED MARCH 31, 2005 (IN $000S) | 2005 | 2004 |
|---|---|---|
| **Sales and other income** | **3,532,171** | **3,320,681** |
| COST AND EXPENSES | | |
| Cost of sales | 1,810,025 | 1,726,475 |
| Retail stores and marketing | 387,410 | 373,978 |
| Warehousing and distribution | 71,131 | 67,470 |
| Administration | 66,092 | 57,413 |
| Amortization | 50,703 | 49,917 |
| | **2,385,361** | **2,275,253** |
| Net income for the year | 1,146,810 | 1,045,428 |
| Retained income, beginning of year | 253,826 | 248,398 |
| | **1,400,636** | **1,293,826** |
| Deduct | | |
| Dividend paid to the Province of Ontario | 1,110,000 | 1,035,000 |
| Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 5,000 |
| | **1,115,000** | **1,040,000** |
| **Retained income, end of year** | **285,636** | **253,826** |

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS

| YEAR ENDED MARCH 31, 2005 (IN $000S) | 2005 | 2004 |
|---|---|---|
| CASH PROVIDED FROM OPERATIONS | | |
| Net income | 1,146,810 | 1,045,428 |
| Amortization | 50,703 | 49,917 |
| Loss (Gain) on sale of capital assets | (2,114) | (234) |
| | **1,195,399** | **1,095,111** |
| INCREASE IN NON-CASH ITEMS | | |
| Working capital | 7,642 | 8,628 |
| Accrued benefit obligation | 2,302 | 2,742 |
| | **1,205,343** | **1,106,481** |
| CASH USED FOR INVESTMENT ACTIVITIES | | |
| Purchase of capital assets | (47,465) | (53,434) |
| Proceeds from sale of capital assets | 2,671 | 1,292 |
| | **(44,794)** | **(52,142)** |
| CASH USED FOR FINANCING ACTIVITIES | | |
| Dividend paid to the Province of Ontario | (1,110,000) | (1,035,000) |
| Payment to municipalities on behalf of the Province of Ontario | (5,000) | (5,000) |
| | **(1,115,000)** | **(1,040,000)** |
| Increase (decrease) in cash during the year | 45,549 | 14,339 |
| Cash and cash equivalents, beginning of year | 60,724 | 46,385 |
| **Cash and cash equivalents, end of year** | **106,273** | **60,724** |

See accompanying notes to financial statements.

## 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

### (c) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (d) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and expenditures for repairs and maintenance are charged to income.

### (e) Revenue Recognition

Revenue is recognized when the sale of products is made to customers.

### (f) Expense Recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

### (g) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2005, the cost of these employee future benefits was $7.7 million (2004 – $7.5 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2005 is $42.4 million (2004 – $40.1 million) of which $5.0 million (2004 – $4.9 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined-benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined-benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2005, the expense was $14.7 million (2004 – $13.8 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

## 5. CAPITAL ASSETS

| (in $000's) | 2005 Cost | 2005 Accumulated Amortization | 2005 Net Book Value | 2004 Net Book Value |
|---|---|---|---|---|
| Land | 13,223 | — | 13,223 | 13,473 |
| Buildings | 318,104 | 215,520 | 102,584 | 94,199 |
| Furniture and fixtures | 67,218 | 42,229 | 24,989 | 28,457 |
| Leasehold improvements | 194,137 | 132,660 | 61,477 | 64,148 |
| Computer equipment | 92,818 | 71,382 | 21,436 | 27,227 |
| | **685,500** | **461,791** | **223,709** | **227,504** |

## 6. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | (in $000's) |
|---|---|
| 2006 | 37,791 |
| 2007 | 36,040 |
| 2008 | 33,560 |
| 2009 | 30,359 |
| 2010 | 25,882 |
| Thereafter | 199,561 |
| | **363,193** |

## 7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2005 the Board had $2.5 million (2004 – $4.9 million) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

## 8. CONTINGENCIES

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. PAYMENT TO MUNICIPALITIES

During fiscal 2005, in accordance with Section 5(2) of the *Liquor Control Act*, 1990, the Board was directed by Cabinet to contribute $5 million (2004 – $5 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million in fiscal 2006. In subsequent years, the LCBO's contribution will be determined by methods to be established under Section 30(1) of the *Waste Diversion Act*, 2002.

# BOARD MEMBERS

**Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through Orders-in-Council. Appointments, up to five years, are sometimes renewed.**

**ANDREW S. BRANDT:**
Appointed February 6, 1991.
Term expires February 2006.

Re-appointed in 2003 for a fifth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and in 1987 was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. During his tenure as Chair and CEO, Mr. Brandt has played a key role in the transformation of the LCBO from staid government bureaucracy to award-winning retailer, reflected in 10 straight record dividend transfers to the government of Ontario.

**PHILIP OLSSON:**
Appointed June 17, 2004.
Term expires June 2007.

Mr. Olsson is Vice Chair of the LCBO. A partner in K J Harrison & Partners Inc., a privately-held investment firm, he has had a 30-year career as an investor and investment and commercial banker. Past positions have included directing the private equity groups at a large mutual fund company and a chartered bank, and Vice Chairman of RBC Dominion Securities, Canada's largest investment bank. He holds BA and MBA degrees from Vanderbilt University and studied monetary economics as a postgraduate at the London School of Economics. He is a director of a number of private companies and has long been active in community and civic affairs on behalf of such organizations as the United Way, Wilfrid Laurier University, the Shaw Festival and Trout Unlimited.

## Also serving in fiscal 2004–05

**GAYLE CHRISTIE:**
Appointed June 13, 2001.
Term expired June 2004.

**PERRY MIELE:**
Appointed April 3, 2002.
Term expired April 2005

**JEAN SIMPSON:**
Appointed November 3, 2004.
Term expires November 2007.

Ms. Simpson has had a lifelong interest in mental health, beginning her career as a nurse and moving into management at the Clarke Institute of Psychiatry and Women's College Hospital in Toronto. She then became Director of Mental Health Programs and Services at the Ministry of Health, returning to the Clarke Institute as Executive Vice President and COO and subsequently Executive Vice President and Chief Operating Officer of the Centre for Addiction and Mental Health when it was created in 1998. She retired in June, 2003, but has continued her work in mental health through membership of the boards of the Ontario Women's Health Council, which advises the Minister of Health on women's health issues, and the Ontario Council of Alternative Businesses, a not-for-profit organization with a provincial mandate to develop alternative businesses owned and operated by psychiatric survivors and consumers of the mental health system. As a former COO, she also coaches senior business executives.

**DR. LINDA BRAMBLE:**
Appointed July 5, 2004.
Term expires July 2007.

Dr. Bramble is a wine writer and broadcaster, tour guide and former professor in wine appreciation at the Cool Climate Oenology and Viticulture Institute at Brock University in St. Catharines. Among several other books, she has written two about Ontario wine country: *Discovering Ontario's Wine Country* and *Touring Niagara Wine Country*. Dr. Bramble is a former lecturer in philosophy and education at Brock University and Concordia University in Montreal and a program director with the Niagara Institute, a think tank bringing together leaders from business, labour, government and academia, now part of the Conference Board of Canada. A frequent contributor to wine publications and radio shows, Dr. Bramble has hosted a cooking and wine-matching show on the Niagara cable TV channel and has taken tour groups to wine regions in Tuscany and Umbria.

**BEV HAMMOND:**
Appointed September 26, 2002.
Term expires September 2005.

Ms. Hammond is President of Veritas Communications, an award-winning Toronto public relations and public affairs agency. Before joining Veritas, she was President of Communiqué Public Relations and Director of PR at Grey Canada. She combines her agency work with experience in both the federal and provincial governments. She has been senior advisor to the federal Minister of International Trade, with responsibility for bilateral trade, and advisor to the Minister of Small Business and Tourism, as well as Communications Director and Press Secretary to Ontario's Deputy Premier and Minister of Finance, and Executive Assistant to the Government House Leader. She serves on the board, and is Chair of the Marketing Committee for Special Olympics Canada. She is also Chair of the Advisory Board of Hammond Transportation.

# RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 24, 2005.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report (page 38) outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Andrew S. Brandt
*Chair & Chief Executive Officer*

J. C. Browning

J. Alex Browning
*Senior Vice President, Finance & Administration, and Chief Financial Officer*
*June 24, 2005*

# SENIOR MANAGEMENT TEAM 2004-05

| | |
|---|---|
| Bob Peter | *President and Chief Operating Officer* |
| Jackie Bonic | *VP, Store Development & Real Estate* |
| Alex Browning | *Senior VP, Finance & Administration* |
| Tamara Burns | *VP, Merchandising* |
| Nancy Cardinal | *VP, Marketing Communications* |
| Bob Downey | *Senior VP, Sales and Marketing* |
| Roy Ecker | *Senior VP, Retail Operations* |
| Mary Fitzpatrick | *Senior VP, General Counsel & Corp. Sec.* |
| Murray Kane | *Senior VP, Human Resources* |
| Hugh Kelly | *Senior VP, Information Technology* |
| Bill Kennedy | *Executive Director, Corporate Communications* |
| Gerry Ker | *Executive Director, Corporate Policy* |
| Ian Martin | *Senior VP, Logistics* |
| Barry O'Brien | *Director, Corporate Affairs* |
| Dr. George Soleas | *VP, Quality Assurance* |
| Shelley Sutton | *Director, Strategic Planning* |
| Tom Wilson | *VP, VINTAGES* |

Trading customers up to premium products is part of the LCBO's strategy to grow its business in a responsible manner.

| | |
|---|---|
| DIVIDEND TO GOVERNMENT | **$1.115B** |
| INCREASE IN DIVIDEND TO GOVERNMENT | **7.2%** |
| NET SALES AND OTHER INCOME | **$3.532B** |
| INCREASE IN NET SALES | **6.4%** |
| NET INCOME | **$1.146B** |
| INCREASE IN NET INCOME | **9.7%** |

# LCBO Annual Report 2005-06

DISCOVER THE WORLD
LCBO


Bringing our customers products from 72 countries

# LCBO Annual Report 2005-06

Under the Liquor Control Act, the LCBO is required to prepare an annual report to the Minister and the Treasurer of Ontario. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however it also provides an overview of the Ontario beverage alcohol marketplace.

## Table of Contents



### Credits


The LCBO wishes to thank the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document. This report is also available at www.lcbo.com, under About LCBO.

Produced by LCBO Corporate Communications.

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Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2005-06.


### Members of the LCBO Board (during fiscal 2005-06)

ANDREW S. BRANDT
*Chair and Chief Executive Officer, retired from Board February 6, 2006.*

PHILIP J. OLSSON
*Acting Chair and Chief Executive Officer*

JEAN SIMPSON
*Member; Chair, Audit and Governance Review Committee*

DR. LINDA BRAMBLE
*Member; Member, Audit and Governance Review Committee, resigned from the Board May 24, 2006*

LAUREL MURRAY
*Member; Member, Audit and Governance Review Committee*

STEVE DIAMOND
*Member*

BOB PETER
*President and Chief Operating Officer*

### Letter of Transmittal

THE HON. DAVID CAPLAN
*Minister of Public Infrastructure Renewal*

Dear Minister,

I have the honour to present you with the 2005-06 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

PHILIP J. OLSSON
*Acting Chair and Chief Executive Officer*

# *message from the minister* | …LCBO exceeded its previous dividend by 7.6 per cent, delivering $1.2 billion to the province in fiscal 2005-06…

As Minister of Public Infrastructure Renewal, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2005-06.

Since assuming responsibility for the LCBO in the summer of 2005, I have enjoyed an excellent working relationship with this important government agency. I've witnessed closely the leadership that is responsible for the LCBO's ongoing improvement.

During fiscal 2005-06, the LCBO worked hard to continue to meet the expectations of government, customers, taxpayers and other stakeholders.

As you will read in the pages that follow, the LCBO exceeded its previous dividend by 7.6 per cent, delivering $1.2 billion to the province in fiscal 2005-06, excluding taxes. These funds support health care, education and other government priorities, programs and services.

In the 2004-05 Annual Report, I challenged the LCBO to introduce further improvements by:

- making operations even more efficient and cost-effective
- contributing to the success of Ontario's domestic beverage alcohol industries
- being governed according to the highest standards of transparency and accountability
- helping to preserve Ontario's environment by reducing package waste; increasing diversion rates; improving all aspects of environmental management; reducing consumption of energy and utilities; and promoting re-use and conservation
- continuing to work on its own, and in partnership with others, to promote responsible drinking and discourage high-risk activities such as drinking and driving, while maintaining vigilant responsible service to prevent sales to minors and intoxicated adults, and
- increasing revenues to government.

Examining its performance during 2005-06, I am pleased that the LCBO met these challenges by effectively managing operating costs through good expense control, while continuing to grow the business in a socially responsible manner.

The agency contributed to the success of Ontario's domestic beverage alcohol industry through dedicated, knowledgeable staff known as Spirits Advocates, WOW (Wonderful Ontario Wines) Leaders and Beer Guys and Beer Gals, and through innovative promotions that featured domestic product.

With Philip Olsson acting as Andy Brandt's successor, supported by a dedicated Board and seasoned management team led by Bob Peter, I'm confident that the good corporate governance, transparency and accountability Mr. Brandt was known for during his 15 years will continue and keep pace with changing demands.

In fiscal 2005-06, the LCBO continued to be vigilant at checkouts, as witnessed by the increase in its challenge and refusal program numbers. LCBO employees challenged more than 1.7 million customers in fiscal 2005-06 to produce proof of age because they appeared to be underage, appeared to be intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person. This was a 17 per cent increase from the 1,436,291 challenged the year before.

Looking ahead to 2006-07, as the minister responsible for the LCBO, I will work closely with its Board, staff and trade partners to ensure the LCBO continues to focus on making improvements to meet the expectations of its customers and the taxpayers of Ontario.

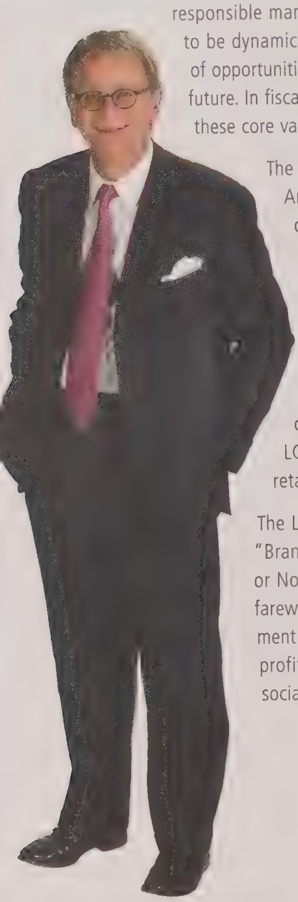
Sincerely,

David Caplan

THE HONOURABLE DAVID CAPLAN
*Minister of Public Infrastructure Renewal and*
*Minister responsible for the Liquor Control Board of Ontario (LCBO)*

# *message from the acting chair and ceo* | ...Net income was $1.204 billion, an increase of $57.5 million and a five per cent improvement on the previous year...

Every successful organization, whatever its purpose, has a set of fundamental values that influence decision-making and shape business practices. At the LCBO, two core values have guided its successful evolution: a commitment to serving the Ontario public in a socially responsible manner, and recognition of the need to be dynamic and innovative to take advantage of opportunities and meet the challenges of the future. In fiscal 2005-06, the LCBO built upon these core values.



The year included a fond farewell to Andy Brandt, who retired in February of 2006 after 15 years as Chair and CEO. Andy filled a special role in the history of the LCBO and helped bring these values to life. Working alongside Larry Gee, the former Executive Vice President, and current President and COO Bob Peter, he championed the transformation of LCBO into one of the most progressive retailers in North America.

The LCBO's transformation during the "Brandt years" has no parallel in Europe or North America, and even as we said farewell to Andy we reinforced our commitment to customer service and improving profitability, without compromising social responsibility.

In fiscal 2005-06 sales were $3.66 billion, an increase of $154 million and 4.4 per cent over the previous year. In addition, the LCBO collected provincial sales taxes of $342 million, GST of $125 million and federal duty and excise taxes of $321 million.

Net income – the key performance measure – was $1.204 billion, an increase of $57.5 million and a five per cent improvement on the previous year.

These are impressive figures. They were produced through a high standard of fiscal management, operational efficiency, customer service excellence, effective marketing and transparent corporate governance.

I was appointed Vice-Chair of the LCBO Board in June 2004 and became Acting Chair and CEO when Andy Brandt retired. I am Acting Chair and CEO because, under the Liquor Control Act, the Vice-Chair becomes the Acting Chair and CEO in the absence of the Chair.

The LCBO Board is responsible for ensuring the organization acts in the best interests of the people of Ontario. The LCBO is an important and valuable public asset and the Government wants to ensure it is well governed. This means that the Board is charged with striking the correct balance between economic and social goals.

At the LCBO this includes:

- setting clear objectives, including high-quality services to the public while ensuring that all our activities meet the highest standard of social responsibility
- establishing guidelines for assessing and managing business risks
- reviewing results against those objectives and guidelines, and
- playing a strong supporting role to LCBO senior management and frontline employees.

...The government considers the LCBO an important and valuable asset and wants to ensure it is well governed...

To help accomplish these objectives, our Board approves annual financial and business plans, helps develop and approve the strategic plan, and submits an annual financial plan to the Government.

To provide sound governance, Board members should be appointed solely for what they can contribute to the LCBO. I am pleased to say that working with the Government we have recruited an exceptional Board. Every member has the skills, experience and understanding needed to contribute to the LCBO today and in the future, and every one would qualify to be a valued member of any effective private sector board. We thank them for their contributions.

Board Member Dr. Linda Bramble stepped down after our fiscal year end so that she would be free of conflicts in providing her much-sought-after advisory services to the Canadian wine industry. On behalf of the Board, LCBO employees and people of Ontario, I would like to thank Dr. Bramble for her contributions over the past two years. She brought a valuable perspective to the Board.

In the pages that follow, you will read about a year marked by great progress – not only financial progress, but also progress in social and environmental responsibility and in the promotion of the Ontario beverage alcohol industry.

My fellow Board members and I would also like to thank every employee of the LCBO for once again meeting and in many cases exceeding key performance indicators for the year, while always striving to deliver service in a socially responsible way. We are honoured to be part of this dedicated team of professionals.

PHILIP J. OLSSON
*Acting Chair and Chief Executive Officer*

August 2006

## *senior management team* 2005-06

| | |
|---|---|
| BOB PETER | *President and Chief Operating Officer* |
| JACKIE BONIC | *VP, Store Development and Real Estate* |
| ALEX BROWNING | *Senior VP, Finance and Administration, and CFO* |
| TAMARA BURNS | *VP, Merchandising* |
| NANCY CARDINAL | *VP, Marketing and Customer Insights* |
| BOB DOWNEY | *Senior VP, Sales and Marketing* |
| ROY ECKER | *Senior VP, Retail Operations* |
| MARY FITZPATRICK | *Senior VP, General Counsel and Corp. Sec.* |
| MURRAY KANE | *Senior VP, Human Resources* |
| HUGH KELLY | *Senior VP, Information Technology* |
| BILL KENNEDY | *Executive Director, Corporate Communications* |
| GERRY KER | *Executive Director, Corporate Policy* |
| IAN MARTIN | *Senior VP, Logistics* |
| BARRY O'BRIEN | *Director, Corporate Affairs* |
| DR. GEORGE SOLEAS | *VP, Quality Assurance* |
| SHELLEY SUTTON | *Director, Strategic Planning* |
| TOM WILSON | *VP, VINTAGES* |

*message from the president and coo* | ...Our 2005-06 performance tells us that we have the right vision and strategies in place for satisfying our customers and building our business...

Our 2005-06 financial performance tells us that we have the right vision and strategies in place for satisfying our customers, building our business in partnership with our suppliers, and delivering on our financial commitments to our owners, the Government and the people of Ontario.

Record revenue, a healthy net income number, and another record dividend highlighted our financial performance.

These were achieved by good control of expenses, which came in $18 million or 3.1 per cent higher than the previous year, but $6 million below our target. This significantly improved performance was largely due to lower than expected marketing costs and a much lower than expected depreciation figure arising from deferred capital spending.

We also continued to improve our supply chain, increasing the frequency of inventory turns and reducing our capital investment in inventory, while also substantially growing sales. As a result of these improvements, we've been able to improve product selection and availability, while freeing up staff time to better serve customers and cash to reinvest in upgrading our stores, warehouses and IT systems. Our progress in improving our supply chain system was recognized by three Excellence in Retailing Awards from the Retail Council of Canada.

Hitting our financial targets is critical as is fulfilling our social responsibility mandate.

In 2005-06, we completed our eighth year of customer satisfaction tracking. These studies provide us with annual checkpoints and important information on how well we are doing in delivering engaging customer service. These studies are a key component in our annual planning and measurement of results.

Prevention of sales to minors topped the list across all regions and all districts when customers were asked what is most important to them. Total challenges by LCBO retail staff were 1,722,112, up from 1,436,291 in 2004-05. Social responsibility concerns have always been uppermost in the public's mind and this survey shows just how important it is to them – and how important it is that we continue to live up to that obligation. Some of the other aspects of our business that are most important to our customers are offering wide product selection, and having knowledgeable and friendly staff.

Our more than 6,000 employees have brought our *Discover the World* brand vision to life daily in new and creative ways. From the store level to the warehouse to the head office, LCBO employees take pride in serving our customers with knowledge and enthusiasm by being their trusted advisers.

In the summer of 2005, the LCBO ratified a new four-year collective agreement with the Liquor Board Employees Division of the Ontario Public Service Employees Union (OPSEU) for its 5,400 unionized employees. The contract expires March 31, 2009.

This year also marked the beginning of an ambitious new environmental strategy for the LCBO, kicked off by the global launch of the French rabbit family of wines in environmentally-friendly Tetra Pak containers.

Developed jointly by Boisset and the LCBO, French rabbit became the most successful launch of a new wine in LCBO history. The success of this product created momentum to introduce a range of new products in innovative package formats that dramatically reduce the amount of package waste generated by LCBO sales.

...The LCBO was founded on social responsibility and we are now building on that tradition of caring by promoting environmentally responsible retailing practices...

By the end of the year, several new products were launched in Tetra Pak containers, PET plastic bottles and aluminum containers, with each contributing to our goal of eliminating 10 million kilograms of waste per year. More than 60 new products were also in development, for launch in fiscal 2006-2007.

This wave of innovation sparked interest in the creation of new Tetra Pak packaging facilities in Ontario to serve the North American market. This will create new jobs and economic activity in Ontario, while providing an opportunity for Ontario wineries to offer products in this format.

The LCBO has also established a Natural Heritage Fund to help protect Ontario's natural heritage by preserving and expanding wildlife habitat. Funding comes from both supplier contributions and by committing 50 cents from the sale of every cloth Envirobag sold at LCBO stores.

The LCBO was founded on social responsibility and we are now building on that tradition of caring by promoting environmentally responsible retailing practices. Research confirms that both the public and our employees care about the environment and wish to help make a difference to the future.

Already, the LCBO's Natural Heritage Fund has supported projects such as river rehabilitation, an eaglet identification project in the Thousand Islands, the restoration of natural habitat for threatened frog species and a breeding program for the Eastern Loggerhead Shrike songbird.

In 2005-06, we also continued to promote the domestic wine industry, as one of our six corporate objectives is to continue to grow Ontario wine sales. The past year was another difficult one for Ontario wineries as there was another short crop due to severe frosts last winter that resulted in a significantly reduced 2005 Ontario grape harvest. Through in-store programs and our WOW Leaders, who promote Ontario wines to our customers, and other marketing promotions, the LCBO is committed to helping the domestic industry weather this hardship. Despite this short crop, we still managed to increase Ontario wines' market share by 0.2 per cent.

Over the past year, the LCBO has also undertaken initiatives to promote Ontario craft beers and provide an ideal retail environment to showcase these premium products. For example, the category is supported in-store by 100 Beer Guys and Beer Gals, specially trained LCBO staff designated to promote Ontario craft beers to customers, and display fixtures exclusively showcasing Ontario craft beers in key LCBO locations.

LCBO employees enjoy working with the Ontario Craft Brewers to help our customers discover the quality and value of these locally produced beers. Sales of premium Ontario craft beers in LCBO stores increased by 33 per cent in net sales and 34 per cent in volume in fiscal 2005-06 compared to fiscal 2004-05. Volume sales of premium Ontario craft beers in the total Ontario beer market have increased by more than 10 per cent over the past year.

Looking ahead, in 2006-07 we are entering year four of our five-year strategic plan. Our plan and our vision have given us the direction and inspiration for what we have achieved since 2003 and they continue to be the road map for us to follow.

Next year's sales goal of \$3.8 billion is ambitious, but not beyond our preparations, ability and commitment to achieve or exceed it.

While we made great progress in the last year, we cannot "rust" on our laurels. Continuous improvement is the lifeblood of any forward-thinking and innovative organization and the LCBO prides itself on keeping the momentum moving and continuing to improve our product selection and customer service.

Bob Peter

BOB PETER
*President and Chief Operating Officer*

August 2006

# *board members* |


Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through Orders-in-Council. Appointments, up to five years, are sometimes renewed.

PHILIP J. OLSSON

*Appointed Vice Chair June 17, 2004 and became Acting Chair and CEO, February 6, 2006. Term expires June 2007.*

A partner in K J Harrison & Partners Inc., a privately-held investment firm, he has had a 30-year career as an investor and investment and commercial banker. Past positions have included directing the private equity groups at a large mutual fund company and a chartered bank, and Vice Chairman of RBC Dominion Securities, Canada's largest investment bank. He holds BA and MBA degrees from Vanderbilt University and studied monetary economics as a postgraduate at the London School of Economics. He is a director of a number of private companies and has long been active in community and civic affairs on behalf of such organizations as the United Way, Wilfrid Laurier University, the Shaw Festival and Trout Unlimited.

JEAN SIMPSON

*Appointed November 3, 2004. Term expires November 2007. Chair of the Audit and Governance Review Committee.*

Ms. Simpson has had a lifelong interest in mental health, beginning her career as a nurse and moving into management at the Clarke Institute of Psychiatry and Women's College Hospital in Toronto. She then became Director of Mental Health Programs and Services at the Ministry of Health, returning to the Clarke Institute as Executive Vice President and COO and subsequently Executive Vice President and Chief Operating Officer of the Centre for Addiction and Mental Health when it was created in 1998. She retired in June, 2003, but has continued her work in mental health through membership of the boards of the Ontario Women's Health Council (2003-2006), which advises the Minister of Health on women's health issues, the Ontario Council of Alternative Businesses, a not-for-profit organization with a provincial mandate to develop alternative businesses owned and operated by psychiatric survivors and consumers of the mental health system, and Workman Arts, a company committed to helping improve the quality of life of individuals who experience mental illness or addiction. As a former COO, she also coaches senior business executives.

STEVE DIAMOND

*Appointed September 21, 2005. Term expires September 2008.*

Mr. Diamond is a partner in McCarthy Tetreault's Real Property and Planning Group. He also serves as a director of the Mount Sinai Hospital Foundation, Whitecastle Investments and the Ontario Urban Development Institute. He is interested in environmental issues both as a lawyer and a layman. His law practice focuses on work in the administrative law area, providing advice and advocacy in matters pertaining to planning, environmental and municipal law. He has acted for a wide variety of both public and private sector clients. Mr. Diamond's practice involves strategic advice as well as appearances before municipal councils, the courts and the Ontario Municipal Board. He has acted as counsel on


some of the largest and most sophisticated projects that have been approved in the Greater Toronto Area. Mr. Diamond received his LLB from the University of Western Ontario and was called to the Ontario bar in 1978. He gives back to the educational community through frequent lectures at law schools and other educational organizations.

LAUREL MURRAY

*Appointed August 8, 2005. Term expires August 2008. Member, Audit and Governance Review Committee.*

Laurel Murray is a Chartered Accountant with more than 18 years of senior management experience in the private and public sectors. Since 2000, Ms. Murray has headed up her own management consulting firm. Over the past 20 years, she has helped a number of federal and provincial agencies and ministries improve the way they manage risks, measure performance and improve accountability. Ms. Murray is a proponent of good governance and oversight. She also has a keen interest in the environment. Her areas of expertise include strategic planning and reporting; performance measurement; integrated risk management; financial management, accounting and auditing; financial systems; project management; program implementation and organizational design. She graduated with honours from Carleton University in 1986 with a Bachelor of Commerce. She received her Chartered Accountant designation from the Canadian Institute of Chartered Accountants in 1989. An active volunteer, Ms. Murray has given her time in the past to help those in need in her community.

DR. LINDA BRAMBLE

*Appointed July 5, 2004. Resigned from the Board May 24, 2006 Member of the Audit and Governance Review Committee.*

Dr. Bramble is a wine writer and broadcaster, tour guide and former professor in wine appreciation at the Cool Climate Oenology and Viticulture Institute at Brock University in St. Catharines. Dr. Bramble was also recently inducted as a Fellow into the Cool Climate Oenology and Viticulture Institute, which allows her to continue to do research with the university as an industry associate. Among several other books, she has written two about Ontario wine country: *Discovering Ontario's Wine Country* and *Touring Niagara Wine Country*. Dr. Bramble is a former lecturer in philosophy and education at Brock University and Concordia University in Montreal and a program director with the Niagara Institute, a think tank bringing together leaders from business, labour, government and academia, now part of the Conference Board of Canada. A frequent contributor to wine publications and radio shows, Dr. Bramble has hosted a cooking and wine-matching show on the Niagara cable TV channel and has taken tour groups to wine regions in Tuscany and Umbria.

*corporate structure* | ...LCBO's mission is "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO is a provincial government enterprise reporting to the Minister of Public Infrastructure Renewal. Its mission is "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO has a Board of up to seven members. They are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and the Minister of Public Infrastructure Renewal. Members are appointed for a term of up to five years. There are regular monthly Board meetings.

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high-quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Public Infrastructure and Renewal
- ensuring the organization has communications programs to inform stakeholders of significant business developments, and
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

### Audit and Governance Review Committee

The Board has an Audit and Governance Review Committee whose members are elected by the Board. The committee is responsible for the reliability and accuracy of the LCBO's financial statements and for assessing the risks facing the organization and its management. It also reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles.

### Ethics and Business Conduct

The Board has adopted a code of conduct that includes policies addressing conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment, and human rights.

### Health and Safety

The Board approves an annual health and safety policy and ensures it is kept informed of health and safety issues through regular reports.

### Store Planning and Development Committee

This is a management committee that reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

### Listings Appeals Committee

This committee reviews appeals of denials of listing applications.

### Accountability

The LCBO is accountable to its stakeholders in a number of ways, including:

- its Annual Report, required to be tabled in the provincial legislature and available to all Ontarians online at *www.lcbo.com*
- annual audits of LCBO financial statements and periodic value-for-money audits – conducted by the Office of the Auditor General of Ontario – as well as internal value-for-money audits of LCBO programs conducted by LCBO Internal Audit
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- various statutory reporting requirements under the *Liquor Control Act* to the Minister and the Treasurer of Ontario, and
- compliance with Management Board's Agency Accountability Directives.

*customer segmentation* |

# Customer segmentation research helps match products and services to shoppers' interests

A new study of what customers buy and what influences their spending when shopping at the LCBO has led to the creation of new customer profiles to help employees provide engaging customer service.

Their level of interest in learning more about beverage alcohol products and their social and entertaining habits were also included in the customer segmentation studies.

This compares with the customer segments in place since 1997, which were based on consumer interest in learning more, social habits, shopping and product preferences.

The new segments are based more on behaviour than attitude -- what shoppers are actually buying and how likely they are to spend more. This gives the LCBO more insight into their interests and helps us align our strategy better to cross-sell, up-sell and migrate customers to other product categories.

The new segments are: *Experience Seekers, Mixers and Shakers, Peers and Cheers, Young Experimental Sociables, Aspiring Stay-at-Homes and Comfy at Homes.*

The characteristics of the six segments include:

Experience Seekers: Mostly interested in red and imported wines. Usually browse the aisles and are interested in learning about new products. Buy on advice of employees, media and *FOOD & DRINK*. Well educated, married, aged 40 to 59 with high income.

Mixers and Shakers: Interested in coolers, spirits and beers. Like to browse, open to suggestions and willing to pay more for premium products. Influenced by recommendations from employees, media and bonus AIR MILES. Single and under 25.

Peers and Cheers: Interested in beer, spirits and occasionally Ontario white wine. Knowledgeable about beer but have little interest in learning about other products. Shop often but make quick in and out visits. Young married men.

Young Experimental Sociables: Mostly interested in wines from all regions. Buying decisions influenced by product features, bonus AIR MILES and value-adds. Food matching also an interest. Open to suggestions. Young and single.

Aspiring Stay-at-Homes: Interested in wine, but sometimes beer, usually imported. Purchases based on brand, price and bonus AIR MILES. Occasional shopper for beverage alcohol but open to learning more about all beverage alcohol. Married.

Comfy at Homes: Interested in Ontario white wine, but sometimes beer, usually domestic. Occasional shoppers, their purchasing decisions are based on price and bonus AIR MILES. They have little interest in learning more. Older women with lower income.

**Considerable change since 1997**

Considerable changes in customers' interests have taken place in the eight years since the 1997 study on which the existing segments were based. Buying patterns change, customers' life-stages change and their level of engagement at the LCBO changes.

For example, a single person between the ages of 20 and 25 eight years ago was likely to have just started a job, had lots of disposable income and had a busy social life.

Eight years later and they are married, have children, own a house and are on a budget. They are still interested in beverage alcohol but their social habits are not the same and that means their buying patterns have changed.

The new study included more than 1,000 interviews with people across Ontario, who were asked to answer nearly 50 questions. This was cross-referenced with findings in the annual Corporate Tracking Study, which includes in-depth interviews with 2,400 customers. There were also 21 focus groups in Toronto, Brampton, London, Ottawa and Sudbury to gain more insight into likes and dislikes and the reasons for preferences.

The new segmentation will be used to target resources to deliver the best possible shopping experience. Beginning in 2006-07, the LCBO will tailor messages for specific audiences and will use the new segmentation in marketing, store design, product mix and customer service to deliver on the organization's brand promise of helping customers *Discover the World* of beverage alcohol.

*product trends* | **wines**

## Sales in the Wines business unit grew by 3.1 per cent over 2004-05, to a total $988 million…

| Wines at a glance | |
|---|---|
| Sales in 2005-06 | $988 million |
| Increase over year before | $29.6 million (3.1 per cent) |
| Increase over plan | -$41 million (-4 per cent) |
| Margin dollars | $494 million |
| Increase over year before | $13.9 million (2.9 per cent) |
| Increase over plan | -$19.8 million (-3.9 per cent) |
| Key trends | Moderate overall growth with significant gains for Australia and New World wines. Environmentally-friendly packages were introduced with excellent results although not significant to the overall category. Ontario wines maintained their business unit market share. |

## Outlook for 2006-07:

- → Continue to support and work with the Ontario wine industry
- → Continue to support the environmental packaging initiative
- → Work at developing emerging and fast growing countries such as the U.S., South Africa, Spain, Portugal, Argentina and New Zealand
- → Foster the development of varietals with specific focus on Sauvignon Blanc, Pinot Grigio and Pinot Noir
- → Trade consumers up beyond the $8 price point for a 750mL bottle
- → Develop new consumption occasions through single serving sizes and multi-packs
- → Work collaboratively with suppliers to build stronger brands and innovative and convenient packaging

Sales in the Wines business unit grew by a moderate 3.1 per cent over 2004-05, to a total $988 million, four per cent short of plan. Volume sales increased by only two per cent to 95 million litres, showing that consumers continue to trade up to premium products. In addition, consumers continue to show interest in emerging countries, screw caps, and environmentally-friendly alternative packaging.

The main sales growth contributors in 2005-06 were:

- Australia (up $13.7 million)
- Ontario (up $7.4 million)
- Products priced $12 to $15 (up $17.6 million)
- Environmentally-friendly products (up $6 million)
- Emerging countries such as South Africa (up $4.3 million), Argentina (up $2.4 million), New Zealand (up $2.3 million) and Spain (up $1.9 million).

The Wines business unit has three distinct categories: Ontario, New World and Europe. Here's how each fared in 2005-06:

**Ontario wines:** net sales for Ontario wines grew by 3.2 per cent. This was in line with the total wine market, which grew by 3.1 per cent. The largest contributors to the growth of Ontario table wines were Ontario varietals (up 6.16 per cent), followed by VQA wines (up 5.3 per cent) and Ontario sparkling wines (up 1.4 per cent).

Although they represent less than two per cent of litre sales, Shiraz, Gamay Noir and Pinot Grigio doubled their sales versus the previous year, while Sauvignon Blanc represents 5.6 per cent of litres sold and is growing at 32 per cent versus 2004-05.

**European wines:** European wines maintained volume in 2005-06 as the Société des alcools du Québec (SAQ) labour dispute created a one-time sales increase at the LCBO. Specifically, the major trends for European wines were:

- Italy grew a modest 1.6 per cent, maintaining its share of the wines business at 14.6 per cent
- France lost $6.7 million in sales, or 5.2 per cent
- Spain is the fastest growing segment with sales of $11.5 million, which is 19 per cent or $1.9 million above the previous year.

**New World wines:** New World wines accounted for most of the growth, representing $24.8 million or a 7.1 per cent increase versus the previous year. This segment now represents $372 million per year or 38 per cent of overall Wines category sales.

Here's how other New World wines fared in fiscal 2005-06:

- Australia grew by 7.44 per cent or $13.7 million of additional revenue to $198 million
- United States grew by $2.6 million or 4.6 per cent to $60.6 million
- New Zealand was the fastest growing region with 42 per cent growth to $7.7 million
- South Africa grew 19 per cent to $26.2 million.

Note: Business unit totals do not include sales through VINTAGES and the Private Ordering and Consignment programs.

*product trends* | spirits

Sales in the Spirits business unit grew by 3.5 per cent over 2004-05 to a total of $1.42 billion, the largest contribution of any product category...

| Spirits at a glance | |
|---|---|
| Sales in 2005-06 | $1.42 billion |
| Increase over year before | $48 million (3.5 per cent) |
| Increase over plan | $11 million (0.8 per cent) |
| Margin dollars | $823 million |
| Increase over year before | $30 million (3.7 per cent) |
| Increase over plan | $10 million (1.2 per cent) |
| Key trend | Strong growth in vodka, liqueurs, rum, tequila, gin, and American and Scotch whiskies. |

Outlook for 2006-07:

- Sales projected to rise by 5.9 per cent to $1.5 billion
- Margin dollars projected to rise by 6.6 per cent to $878 million
- Domestic sales projected to rise by 6.1 per cent, margin dollars by 6.7 per cent
- Import sales projected to rise by 6.5 per cent, margin dollars by 7.1 per cent
- Holiday gift sales projected to rise by three per cent to $16.5 million
- Vodka, liqueurs, rum and Scotch whisky will continue to drive sales growth

Spirits account for just 15 per cent of litre sales but 41 per cent of net sales and 47 per cent of margin dollars. The business unit's margin rate of 58 per cent was significantly higher than the corporate rate of 49.9 per cent.

The following helped spur the growth of spirits sales in 2005-06:

Promotions: Two promotions that debuted in 2003-04 were repeated this year to capitalize on growing consumer interest in mixing drinks. Sales during *Cocktails Make the Scene* grew by $3.6 million or 3.5 per cent versus the previous year and by $2.1 million or 2.2 per cent during *Whisky Rocks Unplugged*.

Cocktails: Spirits growth continued to benefit from the continuing popularity of cocktails and vodka and liqueurs – two of the most popular spirits in mixed drinks – enjoyed sales increases of 8.4 and 5.6 per cent respectively. The LCBO offered customers quick, easy recipes taste-tested by experts from the LCBO and the spirits industry.

Premium products: Most growth came in premium and deluxe price bands, up 5.7 per cent and 5.6 per cent respectively. Standard brands declined 1.4 per cent.

Innovation: New flavoured products, especially those that make good cocktail ingredients, were well received by consumers. Some 36 per cent of spirits' annual growth came from 85 new products introduced in 2005-06.

Gifts: The holiday gift program was a resounding success with sales of gift packs increasing 8.7 per cent or $1.3 million. This was $16 million in total net dollar sales, which exceeded target by $1 million. There were 83 gift packs. The top four categories were Canadian whisky, cream liquor, liqueurs, and brandy/cognac. These accounted for three-quarters of the spirits gift pack sales.

Supply: Improved inventory flow helped ensure stores had the products customers wanted, when they wanted them, especially during the busy holiday season.

Supplier collaboration: LCBO suppliers helped drive the growth in spirits through their support of promotions and tie-ins to on-premise activities.

All segments grew, except Canadian whisky, other whiskies, brandy/cognac and duty-free. The strongest growth came from vodka (up $23.6 million or 8.4 per cent) and liqueurs (up $11.7 million or 5.6 per cent). Vodka sales have grown by almost $100 million to $304.4 million since 2000-01.

Other segments that did well included tequila (up 16.8 per cent), Irish whiskey (up 8.7 per cent), American whiskey (up nine per cent), gin (up 3.6 per cent) and rum (up 3.1 per cent).

Duty-free spirits sales, which rebounded in 2004-05 by 2.1 per cent, declined in 2005-06 by 3.5 per cent.

The highest rates of growth were for premium and deluxe products in higher price bands. Excluding gift packs, sales of liqueurs, duty-free sales, premium and deluxe products accounted for 80.4 per cent of the business unit's growth over the previous year.

Domestic spirits increased 2.6 per cent in value, 2.8 per cent in margin and 2.2 per cent in litres. The fact that dollar sales and margin increased at a faster rate than litre sales shows customers were trading up to more premium products.

Imported spirits increased by 5.2 per cent in value, 5.3 per cent in margin and 2.9 per cent in litres. These figures also reveal a trend toward premium products.

## Customer focused activities in 2005-06

Mixed drink display: In more than 70 stores, the mixed drink display changes monthly, offering four new "Guaranteed Delicious" cocktails that are easy to make. All ingredients are displayed, often in 375 mL sizes to encourage trial.

Spirits Advocate program: This program selects one person in the top 250 spirits-selling stores to act as a "resident expert" on spirits, interacting with customers and helping them understand the versatility, cost-effectiveness and ease of using spirits. They are also responsible for passing on their knowledge to colleagues to ensure someone has the answer whenever a customer has a question.

Premium fixture: In more than 70 stores, the premium fixture program brings in rare and unique spirits, allowing customers access to hard-to-find items. With a focus on brown spirits in the fall, and white spirits in the spring, we search the globe for unusual products that may be in short supply – some of which are exclusive to the LCBO.

Note: Business unit totals do not include sales through Vintages and the Private Ordering and Consignment programs.

*product trends* | 

# beers and special markets

## Beers and Special Markets growth over the previous year was 3.1 per cent ($25 million)...

**Beers and Special Markets at a glance**

| | |
|---|---|
| Sales in 2005-06 | $867.9 million |
| Increase over year before | $25.9 million (3.1 per cent) |
| Increase over plan | -$25.4 million (-2.7 per cent) |
| Margin dollars | $329.3 million |
| Increase over year before | $11.1 million (3.5 per cent) |
| Increase over plan | $1.5 million (0.5 per cent) |
| Key trend | One of the biggest trends in the Beers and Special Markets category is the polarization of beer sales to either the value or premium segments. In terms of Party Zone sales, growth is dependent on innovation and convenience. |

Outlook for 2006-07:

- Beers and Special Markets sales projected to rise by 2.5 per cent to $902.8 million and margin dollars to increase by 3.5 per cent to $345.3 million
- There will continue to be strong focus on Ontario Craft Brewers products to build on sales momentum gained with the launch of the Ontario Craft Brewers marketing cooperative in 2005-06

The Beers and Special Markets business unit is made up of all beers sold through the LCBO as well as imported beer shipments to The Beer Store (TBS). It also includes coolers, cocktails-to-go (also referred to as Party Zone), and niche segments such as sake, ciders and bar accessories.

Beers and Special Markets managed its inventory well both from a turn and Gross Margin Return on Investment (GMROI) perspective, with both exceeding targets and previous year results.

While the 2005-06 fiscal year got off to a great start with hot, sunny weather, customer buying patterns were affected by the possibility of a labour dispute by LCBO unionized employees. This led to customers stocking up on wine and spirits. However, once the situation was resolved, many customers either chose to shop at TBS for 12 and 24-format cases of beer or, in the case of Party Zone, they had purchased enough product to last an extended period of time. Also, the conversion of several LCBO combination stores to new TBS stores cut more than $3 million of sales from the Beer and Special Markets category.

Despite these challenges, Beers and Special Markets drove sales and margin by:

- Continuing to improve the range of LCBO-exclusive import single cans of imported beer
- Introducing Party Zone party packs offering customers a volume discount on the bigger size and convenience of multi-packs
- Driving sales of Ontario Craft Brewers – a 33 per cent increase achieved by several merchandising and promotional initiatives
- Exceeding turns targets for this year and against last year – 16.6 turns versus 16.2 and 14.36 turns the previous year, and
- Improving GMROI results of 10.21 this year versus 8.86 the previous year.

Four key product sets made up approximately 70 per cent of sales in 2005-06. They were:

Imported non-US beer (LCBO sales and TBS shipments):
This category made up 38.7 per cent of business unit sales and was the fastest growing segment, up 9.7 per cent over the previous year.

Two areas of growth were: LCBO exclusives and value-price imports. LCBO exclusives include unique products and formats, ethnic products and one-time purchases that are only available at the LCBO. Beers and Special Markets carries beer from 40 countries, 17 more than TBS.

The value-price products, those in 500 mL cans, typically priced around $2 each, offer greater savings to customers on a per millilitre basis than many of the 24-pack domestic mainstream brands.

Ontario beer: Making up 30.6 per cent of business units sales, this segment grew by 2.9 per cent. Growth is primarily coming from the value-priced (14.7 per cent) and micro (41.9 per cent) products. Key to continued growth in this segment will be adding new value brands while protecting against declines in the mainstream category. Also key will be continuing to work with Ontario Craft Brewers to increase their profile and sales at the LCBO.

Spirit coolers: Accounting for 16 per cent of business unit sales, this category contributes 40 per cent more margin per unit than beer. A strong start to the fiscal year, linked to exceptionally hot and sunny weather, was balanced against poor sales in late summer and the fall due to stockpiling under the threat of an LCBO labour dispute. The year ended 0.4 per cent above the previous year's sales.

Cocktails-to-go: These products now account for 3.5 per cent of Beers and Special Markets sales and are an important driver of the Party Zone's "de-seasonalization" strategy, as these products have year-round appeal. Due to a quality assurance issue with the second largest selling brand in this sub-category, which extended over the key holiday season until year end, sales dropped by 1.8 per cent over the previous year.

Other categories include:
US beer: up 3.9 per cent over the previous year. Miller Genuine Draft and Yankee Jim drove sales in this segment
Out-of-province beer: up 3.8 per cent over the previous year
Kosher products: up 13.4 per cent over the previous year
Sake: up 6.2 per cent over the previous year. These gains are linked to a broadened selection of premium sakes
Ciders: up 8.4 per cent over the previous year. Sales growth occurred because we are now offering formats similar to beer, such as cans in 500 mL sizes
Accessories: down 10.9 per cent compared to the previous year as a change in strategic direction for bar accessories resulted in cancelled programs.

Note: Business unit totals do not include sales through Vintages and the Private Ordering and Consignment programs.

*product trends* | *vintages*

Net sales increased by 15.1 per cent and margin increased by 19.5 per cent…

| VINTAGES at a glance | |
|---|---|
| Net Sales | $219 million |
| Increase over year before | $28.7 million (15.1 per cent) |
| Increase over plan | $26.6 million (13.9 per cent) |
| Margin dollars | $96.5 million |
| Increase over year before | $15.8 million (19.5 per cent) |
| Increase over plan | $14 million (17.2 per cent) |
| Key trends | Favourable foreign exchange rates and a continuation of the oversupply of wine worldwide helped moderate fine wine prices during 2005-06. Wines in the $15 to $20 range showed strong growth with total sales of $64.1 million, an increase of 15.3 per cent. In fiscal 2005-06, net sales of VINTAGES New World wines and spirits were $110.5 million and net sales of European wines were $108.5 million. |

Outlook for 2006-07:

- Net sales projected to increase to $236.5 million
- Margin dollars projected to increase to $104.5 million
- Sales of Ontario VQA table wines projected to increase eight per cent and Icewine by six per cent
- Increased focus on premium and ultra-premium products
- VINTAGES will continue to work with the Retail division to improve the way its products are merchandised
- The largest Bordeaux Futures campaign will occur due to the "spectacular" 2005 vintage with net sales expected to top $10 million
- New programs expected to drive sales this year include launching an Internet-based selling channel and increasing our assortment of products to serve the needs of Ontario's varied ethnic population
- Continue to evolve VINTAGES events to enhance customers' tasting and educational opportunities

VINTAGES is the fine wines and premium spirits business unit of the LCBO. Following its vision, *Discover our Latest,* in 2005-06 VINTAGES released 4,575 products into the market.

VINTAGES made significant progress in the management of its inventories in 2005-06. Total inventory turnover in dollars increased by 30 per cent while total Gross Margin Return on Investment (GMROI) increased by 38.4 per cent.

VINTAGES also increased its Ontario VQA wine sales through expanded promotions and improved assortments. The VINTAGES VQA promotion held in September offered 29 VQA table wines in the release – the largest VINTAGES release of VQA wines to date. VQA net sales during this promotion were $1.1 million, up 33 per cent. For the year, VQA white wine sales were $2.2 million, up 10.8 per cent; VQA red wines sales were $2 million, up 13.5 per cent and VQA Icewine sales were $6.4 million, up 8.7 per cent.

VINTAGES sells products through the following programs:

Retail releases: This is the core of VINTAGES business, making up 64 per cent of sales. Retail sales were $151.3 million in 2005-06, up by 17 per cent. Every two weeks, more than 100 products, in a wide range of price points, are made available in 190 selected LCBO stores. More than half of the assortment each release is new to the Ontario consumer. VINTAGES *Wine-of-the-Month* and *FOOD & DRINK Discovery* programs continue to be successful and this year three new programs – *Benchmark, Arrive in Style* and *ON Tour* – were introduced. *Benchmark* provides products considered as "benchmarks" or exceptional examples of a country/region/grape variety or wine style. These selections must provide excellent value at their price point. *Arrive in Style* features one or two products on the back inside cover of every release circular and these are targeted as gifting "solutions" for customers. *ON Tour* is dedicated to the exploration of Ontario VQA wines. This feature, through a double-page spread every second release catalogue, showcases a winery, varietal or appellation together with three to five wines.

Other VINTAGES programs include:

Essentials: Offers a core group of 85 world-renowned and popular brands that are continuously available in the LCBO retail network, 17 of which are Ontario VQA. This year, a core group of Essentials products were made available at 56 LCBO stores in Ontario cottage country. This Summer Store program achieved sales of $2.4 million, an increase of 37 per cent. Total sales of Essentials products were $68.7 million – 29 per cent of VINTAGES business – and 28 per cent higher than the previous year.

Classics Catalogue: This direct marketing program offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rarities. Published four times per year, the *Classics Catalogue* accounted for $14 million in sales in fiscal 2005-06 – six per cent of VINTAGES business.

Bordeaux Futures: VINTAGES offers customers an opportunity to buy fine Bordeaux classified growths as "Futures" before they are bottled, usually at a significant discount to the eventual release price. In 2005-06, net sales reached $8.5 million – 3.6 per cent of VINTAGES business.

Virtual VINTAGES: This program offers our customers the opportunity to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. These offers are usually made via the Internet and are sold through our VINTAGES Sales and Service Centre. This program provides an effective way to expand our assortment. Net sales in 2005-06 were $3 million – 1.3 per cent of all VINTAGES sales.

Events: Events continue to be a key strategic component of VINTAGES business strategy. More than 3,300 people attended VINTAGES events and tastings in 2005-06. These 20 events ranged from small winemakers' dinners for 75 guests to large-scale tastings for more than 450. On-site sales at VINTAGES events exceeded $600,000. VINTAGES also participated in New Zealand, Australia and California wine shows.

Auction: In November 2005, VINTAGES staged Ontario's fourth commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. Total sales exceeded $1.7 million with an average price per lot of $1,615. More than 90 per cent of the 1,206 lots on offer were sold.

Note: VINTAGES totals do not include sales through the Wines, Spirits and Beers and Special Markets business units and the Private Ordering and Consignment programs.

# *growing sales* | Ontario wines and beers

In 2005-06, the LCBO continued to promote the Ontario wine industry as "growing Ontario wine sales" is one of the organization's six corporate objectives.

The LCBO's partnership with the Ontario wine industry is consistent with Canada's international trade obligations and in keeping with the level of support other wine industries receive in their home markets.

With financial support from the provincial government, the industry has over the past few years increased its marketing investment to capitalize on consumer interest that has kept pace with increasing international recognition of the quality of wines made in Ontario.

The combination of new marketing initiatives and an array of LCBO programs have helped the Ontario wine industry maintain VQA market share through a period of limited wine supply due to the grape crop shortage. Despite this reduced supply, LCBO sales of Ontario VQA wines were up seven per cent to $52.1 million.

LCBO programs that promote Ontario wines include:

Ontario wine product manager: Ontario wine has an LCBO product manager dedicated to the region. The manager works with individual wineries to promote product sales through marketing initiatives, product advancements, product forecasting, new listing opportunities, etc.

WOW Leaders: In close to 300 large stores, an LCBO customer service representative has been designated as the local Ontario wine advocate or WOW (World of Ontario Wine) Leader. WOW Leaders help to ensure customers are aware of the excellent quality of Ontario wines, the VQA appellation system, wine tours, etc.

Winery Visits: Representatives from the LCBO, including senior management, visit Ontario wineries to identify business opportunities, foster working relations and gain a better first hand understanding of developments at the wineries.

Merchandising programs: In partnership with the trade, the LCBO has developed a number of unique and ongoing sales programs for Ontario wine, including:

- *Superstars*, which features the promotion of two Ontario VQA wines per month, with dedicated shelving, promotional materials and a profile in *FOOD & DRINK* magazine. Since inception, the program has showcased 122 Ontario wines, giving consumers the opportunity to taste a wide variety of domestic offerings
- The *VINTAGES VQA Discovery* program
- The Craft Winery Program, which provides dedicated shelving, marketing and promotions for smaller Ontario wineries across 60 high-volume LCBO stores. This program has already made it possible for five wines to achieve full status.

Marketing programs: The LCBO provides a number of marketing opportunities annually for Ontario wine. The LCBO's Marketing and Customer Insights department and Wines category meet with the Wine Council of Ontario on a regular basis to coordinate marketing activities and determine new opportunities. Some key examples:

*FOOD & DRINK* magazine typically includes at least one dedicated Ontario wine promotion and/or feature, including profiles of local winemakers and wineries. The annual fall issue of *FOOD & DRINK* functions as a showcase for Ontario wine varietals, wineries and cuisine.

Period 7 promotion, from mid-September to mid-October, is a key annual Ontario wine promotion. Ontario wine has a very strong presence in LCBO stores and marketing programs during this high sales period (usually includes Thanksgiving). Ontario sales totalled $21,086,003, up 3.1 per cent from the previous promotion. Products on promotion accounted for 55 per cent of total sales in the period, a six per cent increase from fiscal 2004-05.

Shelf location for Ontario wine in LCBO stores is prominent; in almost every LCBO store format, customers are first greeted by Ontario wine.

Shelf construction for Ontario wine in about 250 LCBO stores is a unique all-wood fixture, known as *VQA Cubes*. This shelving is also integrated as an ongoing feature in new and renovated LCBO outlets.

Laboratory support: LCBO provides to Vintners Quality Alliance Ontario (VQAO) support on laboratory and quality assurance services. The LCBO's lab has also provided ongoing technical and laboratory assistance to winemakers to help better understand and address any viticultural challenges in the region.

## Support for Ontario Craft Brewers

In fiscal 2005-06, the Ontario Craft Brewers (OCB) marketing cooperative was formed and the government of Ontario announced $5 million in funding over five years to support the fledgling cooperative.

While on a relatively small base, sales of premium Ontario craft beers in LCBO stores have increased by 33 per cent in net sales and 34 per cent in volume in fiscal 2005-06 compared to fiscal 2004-05. Volume sales of Ontario craft beers in the total Ontario beer market have increased by more than 10 per cent over the previous year.

Ontario craft beers claim five per cent of the hotly competitive Ontario beer market, up one percentage point from 2004-05. The goal of the craft brewers is to increase their share of the Ontario beer market from four per cent in 2005 to 12 per cent in 2014.

This growth over the past year is a clear indication of both the quality and future potential of Ontario craft beers. As with Ontario wine, this is an example of a great partnership to provide consumers with high quality Ontario products and continued support of a successful, home grown industry.

Over the past year, the LCBO has undertaken several initiatives to promote Ontario craft beer and provide an ideal retail environment to showcase these products. The category is supported in-store by 100 Beer Guys and Beer Gals, specially trained LCBO staff designated to promote Ontario craft beers to customers, and display fixtures exclusively showcasing Ontario craft beers in key LCBO locations.

*environmental strategy* | …This year marked the beginning of an ambitious new environmental strategy for the LCBO…

This year marked the beginning of a new environmental strategy for the LCBO and the launch of the first vintage varietal wine in a Tetra Pak container in Canada. LCBO had requested that all its suppliers bring forward environmentally-friendly packaging. Winemaker Boisset was the first to respond with the French rabbit family of wines, which made their global debut in Ontario.

French rabbit became the most successful launch of a new wine in LCBO history. This success created momentum for a range of new products in innovative package formats that dramatically reduce the amount of package waste generated by LCBO sales.

By the end of the year, several new products were launched in Tetra Pak, PET plastic bottles and aluminum containers, with each contributing to the LCBO's goal of eliminating 10 million kilograms of waste per year. More than 60 new products were also in development, for launch in fiscal 2006-2007.

This wave of innovation also sparked interest in the creation of Tetra Pak packaging facilities in Ontario, to serve the North American market. In November 2005, the LCBO established new policies to make it possible for winemakers from around the world to package their wines in Tetra Paks for resale in North America. By opening the door to a potentially new market and making it commercially viable for a Tetra Pak facility to be set up in central Ontario, the LCBO hopes to further support alternative packaging options for Ontario's wine industry.

The LCBO plan also focuses on increasing recycling of all LCBO containers. The LCBO contributed $5 million again this year to Stewardship Ontario to support blue box recycling as part of its obligations under the Waste Diversion Act (based on Management Board directive and, in subsequent years, on methods under the *Waste Diversion Act*). The LCBO also supported efforts by Stewardship Ontario to reform and improve the blue box program to launch new projects that will improve the efficiency and effectiveness of municipal recycling systems. Part of the LCBO's contribution to Stewardship Ontario will help make possible a new multi-million dollar recycling facility that will improve markets for recycled glass and save municipalities millions of dollars, while creating more jobs and economic activity in Ontario.

These efforts are designed to help the LCBO achieve its goal of recovering 80 per cent of LCBO glass containers through blue box recycling, diverting 15 million kilograms of waste per year in addition to 10 million kilograms eliminated by the use of non-glass packaging.

LCBO is also working hard to reduce energy consumption in its stores and warehouses, with new investments in insulation, programmable thermostats, modern heating, ventilation and air conditioning equipment and lighting, and other efforts that will reduce overall consumption by more than 10 per cent per year.

The LCBO has also established a Natural Heritage Fund to raise money for wildlife habitat restoration and rehabilitation throughout Ontario. Funds were raised to support Carolinian forest restoration in south-western Ontario, to support the re-establishment of bald eagles in the upper St. Lawrence River in eastern Ontario, for wetland development within the Toronto and Region Conservation Authority, and to support a captive breeding program for the Eastern Loggerhead Shrike, an endangered predatory songbird. In total, about $2 million has been raised under this program through sales of the LCBO Envirobag and through generous contributions by LCBO suppliers.

At the start of fiscal 2006-07, the LCBO was set to announce a major environmental initiative with Banrock Station. The Australian winemaker committed to contributing $1.25 million over five years to help restore native Atlantic salmon to Ontario rivers and streams, which feed into Lake Ontario, and introduced the LCBO's first Australian wines in Tetra Paks. The LCBO will also contribute $250,000 over five years from its Natural Heritage Fund to support this project. Other partners include the Ontario Ministry of Natural Resources and Ontario Federation of Anglers and Hunters.

Our suppliers responded to our call for new product choices with creativity and enthusiasm and sales show that our customers are pleased with these convenient new products.

*social responsibility* | ...Employees challenged more than 1.7 million customers in fiscal 2005-06 because they appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person...

Research tells us that a majority of Ontarians view the LCBO as a responsible retailer and a good corporate citizen. In our most recent customer satisfaction survey, prevention of sales to minors topped the list across the province when customers were asked what is most important to them. In fact three of the top 10 matters of importance related to responsible service: preventing sales to minors, preventing sales to intoxicated individuals and promoting responsible drinking.

LCBO employees share the same level of interest in social responsibility as our customers. The ability to prevent sales to minors and intoxicated adults ranked as the highest source of pride with staff when we conducted our most recent employee attitude survey. LCBO employees' care and vigilance at checkouts contributes daily to public and community safety and to the LCBO's reputation as a responsible retailer.

### Challenge and refusal numbers climb

Employees challenged more than 1.7 million customers in fiscal 2005-06 because they appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person. This was a 20 per cent increase from the 1.4 million challenged in 2004-05.

The vast majority challenged were asked for proof of age – 1,698,838 out of a total of 1,722,112 (98 per cent and an increase of 17 per cent); 90,682 were refused because they could not prove they were of legal drinking age, compared with 66,326 the previous year. Refusals for reasons of suspected intoxication and suspected third-party purchases amounted to 21,471 – down from 22,670 the previous year.

Overall, refusals for all reasons were more than 112,000, compared to less than 90,000 the previous year. The community expects a high level of social responsibility at the LCBO and these numbers show they are getting it.

### BYID Card continues to grow

LCBO's BYID (Bring Your Identification) Card continues to grow in circulation with more than 36,600 cards issued to date. Last fiscal, more than 4,300 new security enhanced cards were issued. As one of the now five forms of proof of legal drinking age identification prescribed under Ontario's Liquor Licence Act, LCBO's BYID Card is especially useful for Ontarians who do not have an Ontario driver's licence or other form of prescribed ID.

### New TV ad campaign set to launch

Since 1995, the LCBO has used TV, radio, print, cinema and billboard ads to bring social responsibility campaigns to Ontario communities. Research has shown that public recall of these ad campaigns is high and that most respondents who have seen the ads would think twice about drinking and driving – and feel their family and friends would too.

During the early part of fiscal 2006-07, the LCBO announced a new social responsibility advertising campaign in partnership with MADD Canada. The campaign – the eighth joint campaign with MADD Canada – consists of two related television commercials that provide workable solutions for the very real situations that people face at the end of an evening of socializing and drinking. Called *Lonely and Reunited*, the spots used evocative music and play on the relationship people have with their cars, telling viewers: "Any way you can stop a friend from drinking and driving is the right way."

### Charities receive $680,000 from store fund-raising in 2005-06

Fund-raising at LCBO stores in 2005 resulted in more than $680,000 being raised for charities across Ontario.

Activities included a donation box program, invitations to customers to make a donation at the checkout and annual fund-raising campaigns at LCBO stores by the Royal Canadian Legion, Canadian Cancer Society and the Multiple Sclerosis Society of Canada.

United Way appeals in communities across the province raised $115,000 and MADD Canada benefited by $88,000, plus an additional $30,000 from sales of the LCBO's Summer Good Host Kit. The Hospital for Sick Children in Toronto received more than $47,000; the Children's Hospital of Chedoke McMaster, Hamilton, $14,000 and the Children's Hospital of Eastern Ontario in Ottawa and the Children's Hospital of Western Ontario in London nearly $7,000 each.

...Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's Quality Assurance laboratory. This means they are safe to consume, are authentic and meet standards...

Other major recipients were Variety Village – the Children's Charity ($16,000), the Juno Beach memorial in France to Canadians who took part in D-Day landings ($11,000) and the Lung Association ($11,000).

These figures do not include contributions in 2005 to the United Way from the annual LCBO United Way campaign ($355,000), Camp Oochigeas ($80,000), Friends of We Care ($150,000) and many local golf tournaments, barbecues, yard sales and raffles.

### Quality Assurance continues to ensure products are safe to drink

Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's Quality Assurance laboratory. This means they are safe to consume, are authentic and meet standards set out in Canada's Food and Drugs Act and Consumer Packaging and Labelling Act and their related regulations.

The lab is world-renowned and meets the high standards set by the Geneva-based International Organization for Standardization. It is registered under ISO 9001:2000 as well as under ISO/IEC 17025, a designation specific to chemistry laboratories.

In fiscal 2005-06, the QA department conducted 388,239 tests on 16,253 products. As well, 5,189 products were tasted to ensure they met high standards set by the LCBO and, where applicable, the Vintners Quality Alliance Ontario (VQAO). QA staff also reviewed 3,335 labels and 9,204 shipping cartons.

Quality Assurance performed many other functions for the LCBO and its stakeholders in fiscal 2005-06:

- it supported the VQAO by conducting tastings, packaging reviews, laboratory analyses and quality assurance audits, and by helping members develop and adhere to the industry's technical standards
- it also provided services to some of the world's leading beverage alcohol manufacturers, suppliers and agents as well as cork and closure producers and universities and colleges.

# *beyond the numbers* | Management discussion and analysis of operations

**Highlights** ($000)

Dividend to Government: 2004-05 → 2005-06

$1,115,000 → $1,200,000
7.6% change

Net Sales and Other Income: 2004-05 → 2005-06

$3,532,171 → $3,682,919
4.3% change

Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government enterprise, LCBO is not subject to these regulations. However, we have included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

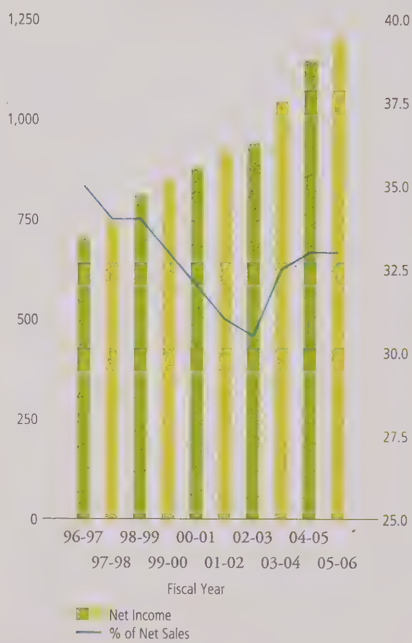
## Net Income

The LCBO posted its highest net income ever in 2005-06, totalling $1.20 billion and representing a $57.5 million increase over the previous year. Net income as a percentage of net sales surpassed the previous year's ratio of 32.7 per cent, coming in at 32.9 per cent, and exceeded plan by 0.6 per cent due to enhanced margins and tight expense control.

The chart at right gives a 10-year history of LCBO net income and net income as a percentage of net sales.

Since 1996-97, LCBO net income has grown by 72 per cent or $503 million.

**Net Income** ($000,000) **and as a Percentage of Net Sales**




**Dividend** ($000,000)

| | | | | |
|---|---|---|---|---|
| $730 | $745 | $780 | $800 | $850 |
| 1996/1997 | 1997/1998 | 1998/1999 | 1999/2000 | 2000/2001 |

*beyond the numbers* |

Operating Expenses: 2004-05 → 2005-06

**$575,336 → $592,963**

**3.1% change**

Net Income: 2004-05 → 2005-06

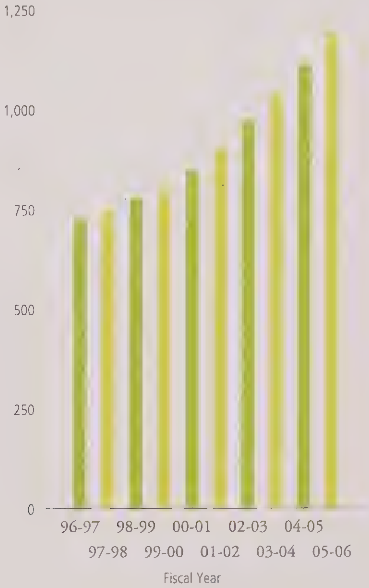
**$1,146,810 → $1,204,344**

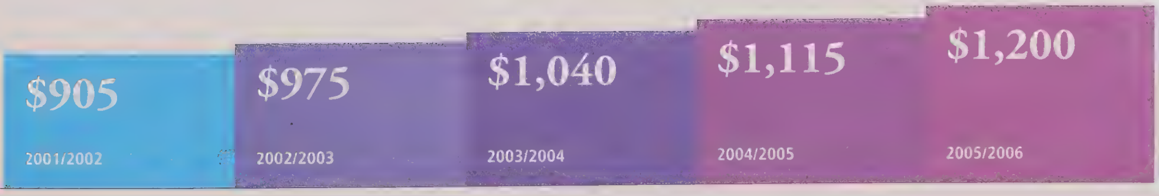
**5.0% change**

### Dividend

We transferred a record $1.20 billion dividend to the provincial government in 2005-06, excluding all taxes. This is an $85 million increase over last year. It was the 12th straight year we have increased our dividend, our 11th straight record dividend and the third consecutive dividend of more than $1 billion.

**Dividend** ($000,000)



# *beyond the numbers* |

### Government revenue disbursement

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $342 million in 2005-06.

*These tables show how LCBO profits are shared between various levels of government and the breakdown of $1 in net sales.*

### LCBO payments to government

| | |
|---|---|
| Dividend | 59.9% |
| Federal | 22.3% |
| PST | 17.1% |
| Municipal | 0.7% |

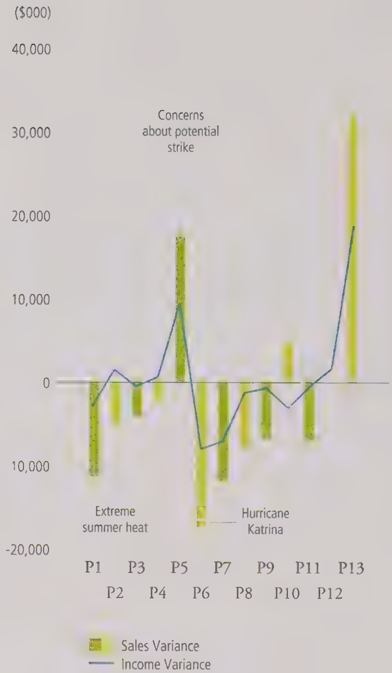
### Breakdown of $1 in net sales

| | |
|---|---|
| Product Cost | 51.7% |
| Net Income | 32.7% |
| Retail and Marketing | 9.9% |
| Administration and Distribution | 3.7% |
| Warehousing and Distribution | 2.0% |

### LCBO's external environment

LCBO sales growth of 4.4 per cent in fiscal 2005-06 was slightly below the 4.7 per cent average growth rate for total retail sector sales in Ontario. However, after adjusting for the estimated $25 million in additional sales resulting from the labour dispute at the Société des alcools du Québec (SAQ) during fiscal 2004-05, LCBO sales growth exceeded the retail sector at 5.1 per cent. Economic conditions in Ontario were favourable to beverage alcohol sales, with unemployment rates falling to 6.6 per cent and economic growth holding at 2.7 per cent in 2005.

The chart above right shows LCBO sales and income fluctuations to plan during the year broken out by selling periods.




In Period 5, customers stocked up in anticipation of a possible LCBO labour disruption while Period 6 witnessed the counter-balancing effect of the stocking up combined with consumer confidence and gasoline price impacts due to Hurricane Katrina. Extreme heat during the summer months constrained demand for beverage alcohol; temperatures between 29-32 degrees Celsius (85-90 Fahrenheit) are optimal for beer and cooler sales.

### Sales by region

While three of LCBO's four retail regions missed their budgeted growth rate for net sales in fiscal 2005-06, all regions improved over 2004-05 levels. Particularly impressive was Eastern Region's performance considering the previous year's sales included a substantial lift resulting from the SAQ labour dispute.

The following table shows how net sales in each region fared compared to the previous year and to plan.

**Sales by region**

| | 2005-06 ($000) | Change from 2004-05 | Variance from plan |
|---|---|---|---|
| Northern | 442,878 | 3.6% | -0.9% |
| Eastern | 749,831 | 2.3% | 0.4% |
| Central | 1,127,163 | 5.0% | -0.8% |
| Western | 853,828 | 4.4% | -0.9% |

# *beyond the numbers* |

### Comparable store sales

"Comparable stores" are defined as stores that have been open in their present location for more than two years. "Non-comparable stores" include stores open less than two years and closed stores. In 2005-06, non-comparable stores experienced a 17.7 per cent net sales increase over the year before, almost six times the three per cent growth posted by comparable stores.

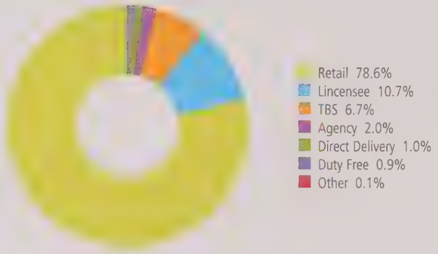
### Sales by channel

LCBO retail sales, which we define as sales to home consumers, grew by 3.9 per cent over last year to $2.87 billion. Retail sales as a share of total LCBO sales decreased slightly from 78.9 per cent to 78.6 per cent, back to the 2003-04 share level. In 2004-05, sales in the retail channel were boosted by the SAQ labour dispute while the licensee and wholesale sales to The Beer Store (TBS) channels were down due to the National Hockey League lockout.

LCBO wholesale sales to TBS were up 8.3 per cent during the year. Sales to TBS as a percentage of total LCBO sales increased from 6.5 per cent to 6.7 per cent primarily due to the increased popularity of imported beers sold through TBS.

Licensee sales grew by 5.5 per cent in 2005-06, from $371 million to $391 million. The licensee channel, which comprises licensed hotel and restaurant sales, has now returned to pre-SARS levels ($381 million in 2002-03). Sales through this channel were bolstered by about $4 million due to the introduction of the new six per cent licensee mark-up on wine and spirits in Period 11 to replace the previously established gallonage fee of 12 per cent while the previous gallonage fee of $2.64 a hectolitre on beer was reduced to zero. The collected fee was previously remitted to the Alcohol and Gaming Commission of Ontario (AGCO).

### Breakdown of LCBO sales by channel




LCBO sales to duty-free stores at land border points were down 2.3 per cent from last year primarily due to fewer trips to Ontario by American visitors. Contributing factors to this decline were increases in the price of gasoline and the weakness of the U.S. dollar.

Agency sales grew by 6.9 per cent in 2005-06 to a total of $73 million despite no new openings. Agency stores now account for 2.0 per cent of LCBO net sales.

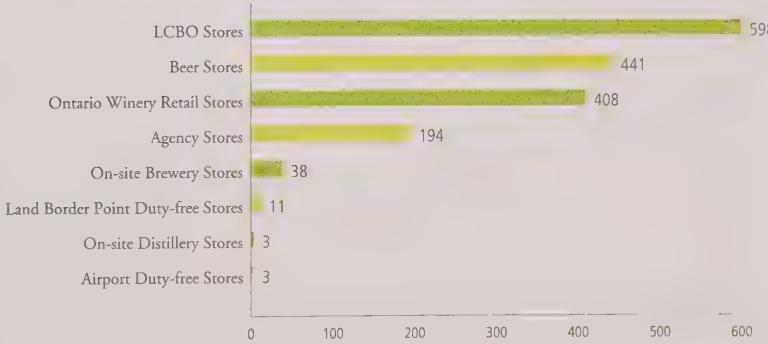
The Ontario winery direct delivery program, which enables wineries to deliver their products directly to licensees, continued to grow, increasing by 6.1 per cent in terms of volume and 8.4 per cent in terms of net sales. In 2005-06, direct delivery sales represented 16.1 per cent of the total value of the licensee market for wine, compared to 15.8 per cent last year.

### LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), owned by Molson-Coors, Labatt (InBev SA) and Sleeman; Ontario winery retail stores (WRS); on-site brewery stores; agency stores; duty-free operators and on-site distillery stores. As of March 31, 2006, there were 1,696 outlets selling alcohol in Ontario.

Here is what the market looked like at March 31, 2006:

### Ontario's alcohol marketplace by number of outlets




Note: When the LCBO's 598 stores and Ontario's 194 agency stores are combined, the total market share is approximately 46.7 per cent.

# *beyond the numbers* |

### Changes in market share

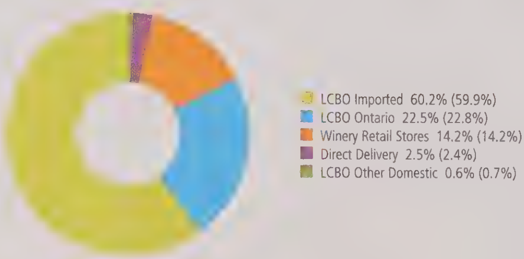
The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, as well as other legal, homemade, de-alcoholized beer and illegal channels, amounted to an estimated $8.0 billion in gross sales in 2005-06. The LCBO's market share by value increased from 48.6 per cent in 2004-05 to 50.5 per cent in 2005-06.

In terms of volume sales, the Ontario wine market increased by 4.0 per cent in 2005-06. Imported wine now holds a 60.2 per cent share of wines sold by the LCBO, up from 59.9 per cent the previous year. Ontario and other domestic wine sales, sold though the LCBO and through winery retail stores as well as delivered directly by Ontario wineries, declined to 39.2 per cent from 39.4 per cent. The continued growth in New World wine sales and the short crop challenges facing Ontario vintners due to weak harvests contributed to the increase in imported wine share.

Ontario direct delivery wine sales increased in terms of market share, from 2.4 per cent to 2.5 per cent, a continuing effect of the 2003 regulatory change that allows wineries to deliver products directly to licensees.

**Wine volume market share, 2005-06**

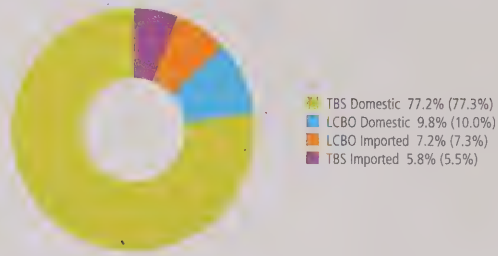
(2004-05 share in brackets)




Beer sales in Ontario grew by 5.8 per cent by volume in 2005-06. LCBO beer sales grew by 4.5 per cent, excluding sales to TBS, compared to 6.1 per cent for TBS. As a result, LCBO's volume market share decreased to 17.0 per cent in 2005-06 from 17.2 per cent a year earlier, while TBS's volume market share rose from 82.8 per cent to 83.0 per cent during the same period. Consumers' tastes for imported products continue to drive beer sales, though TBS sales have also been bolstered by a move to value-price beer purchases in the 24-bottles-per-case format.

**Beer volume market share, 2005-06**

(2004-05 shares in brackets)




### Operating results

*Gross margin*

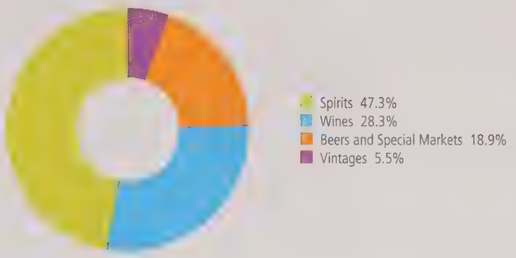
Gross margin was 4.6 per cent higher than last year, up to $1.77 billion in 2005-06 from $1.70 billion in 2004-05, and surpassed plan by 0.3 per cent. Gross margin expressed as a percentage of net sales came in at 48.5 per cent, better than plan of 48.1 per cent and slightly above last year's figure of 48.4 per cent. LCBO customers continuing to trade up to premium products and the replacement of the gallonage fee with the new licensee mark-up in January 2006 offset margin erosion due to higher sales of wines and beer. They have a lower margin than spirits.

Spirits was the largest contributor to the increase in the gross margin, accounting for 42.9 per cent of the increase, followed by wine at 42.3 per cent. Beer accounted for 15.0 per cent while non-liquor products made up the remaining fraction. LCBO receives the highest margin per dollar of net sales on its spirits products at 56.6 cents per net sales dollar, while wine and beer margins are 48.8 cents and 36.1 cents, respectively. (Note: These margin numbers include sales through VINTAGES and therefore may not agree with business unit margins in the Product Trends sections of this report.)

Spirits continues to account for the largest proportion of gross margin at over 47 per cent, which is higher than its sales share owing to the higher margins on spirits products. Wines, Beers and Special Markets, and VINTAGES represented approximately 28 per cent, 19 per cent and 6 per cent of margin, respectively.

*beyond the numbers |*

### Share of Margin by Buyer, 2005-06




Note: Excludes Private Ordering

The trend of the last several years to premium products continued in 2005-06, which helped mitigate the downward movement in LCBO gross margin. For spirits, products priced higher than $30 for a 750 mL bottle increased by 9.7 per cent during the year; this compared to an increase of 0.2 for other spirits products. Premium wine, defined as having a price of $15 or more, increased by 7.6 per cent in 2005-06, compared to 3.5 per cent for all other wines. The trend toward premium products extends to beer as well, but this has no effect on LCBO margins because beer mark-ups are flat: they do not change along with the product's value, as is the case with wine and spirits.

Beer sales as a share of total LCBO sales volume increased from 48.4 per cent to 49.2 per cent, while wine and spirits decreased 0.4 per cent each, to 28.3 per cent and 22.5 per cent, respectively. However, improvement in sales of higher-margin wine and spirits products helped offset much of the impact of the change on LCBO's margin.

*Expenses*

Expense control improved in 2005-06, as LCBO's expense-to-net-sales ratio decreased from 16.4 per cent to 16.2 per cent. Overall expenses were $593 million compared to $575 million the previous year. The increase is primarily due to wage increases from collective bargaining and salary increases from a cost of living adjustment.

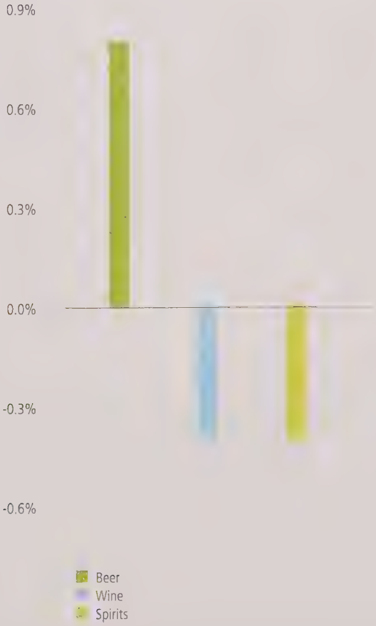
Head office expenses were 5.7 per cent below budget, growing 2.4 per cent from the previous year. Warehouse expenses increased by 5.9 per cent to $48 million, 2.3 per cent above plan, largely due to salaries and benefits, breakages and increased utilities cost. Store expenses grew by 3.2 per cent to $334 million, 0.1 per cent over plan, due to salaries and benefits and expenses such as real estate costs and utilities charges.

### Premium product sales grow at a faster rate

(year over year volume growth)


### Change in share of LCBO sales volume

(year over year volume growth)



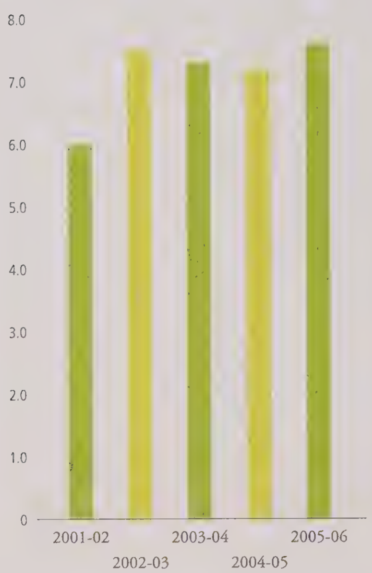
## *beyond the numbers* |

*Inventory*

Total inventory turns improved during the year, increasing to 7.6 from 7.2 the previous year and better than the planned turnover of 7.5. Beer inventory turns increased from 14.5 to 16.4 and spirits turns rose from 8.3 to 8.4, while wine turns fell from 6.3 to 6.1. VINTAGES inventory turns increased from 2.4 to 3.1 due to improved efficiency of product movement through LCBO warehouses.

Wholesale inventory turns including VINTAGES rose to 11.9 in 2005-06, up from 11.2 last year and exceeding the planned figure of 11.7. Retail inventory turns were 14.8 in 2005-06, better than 14.3 in 2004-05 and the 14.6 plan.

**Total inventory turns**




*Financial and operating ratios*

Income statement ratios in 2005-06 compared favourably to the previous year.

Administrative expenses stayed fixed at 1.5 per cent of net sales, the same as the previous year and plan. Operating expenses also improved from 2004-05, from 12.1 per cent to the planned amount of 12.0 per cent. These improvements are the result of higher net sales and effective expense control during the year.

Gross margin as a percentage of net sales exceeded the planned ratio of 48.1 per cent and our 2004-05 ratio of 48.4 per cent, coming in at 48.5 per cent in 2005-06. This was due to an increase in lower-margin beer products, but was offset by the continued sales growth in higher-margin spirits and wine products.

*Productivity ratios*

To help track expenses and identify where improvements are occurring or are needed, the LCBO sets targets for many productivity ratios each year. For instance, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses. A declining store expenses-to-sales ratio means that employees are becoming more productive.

For the retail channel, store salaries as a percentage of net sales remained constant at 7.0 per cent in 2005-06 and came in slightly weaker than the plan of 6.9 per cent. Likewise, store salaries per unit sold remained unchanged from the 2004-05 value of $0.76, but missed plan of $0.75.

Store expenses as a percentage of sales were 10.3 per cent, better than the previous year but above the planned proportion of 10.2 per cent. However, store expenses per unit sold improved from 2004-05 and met plan at $1.12.

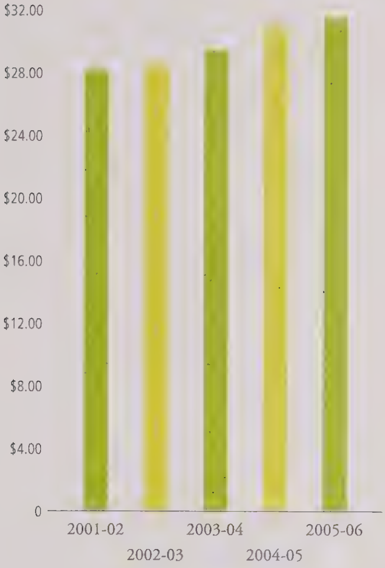
Sales per customer have improved significantly over the past five years, rising from $28.10 in 2001-02 to $31.57 in 2005-06, which surpassed the target of $31.29. These results highlight the trend to higher quality products. Retail space rationalization has helped the sales per square foot figure increase by 4.0 per cent over the last five years, rising to $1,816, but down from $1,859 last year. This decrease was due to a recalculation of selling space in the store system by Store Development. Unfortunately, historical numbers could not be restated due to a lack of appropriate information.

**Retail – Financial and Operating Highlights**

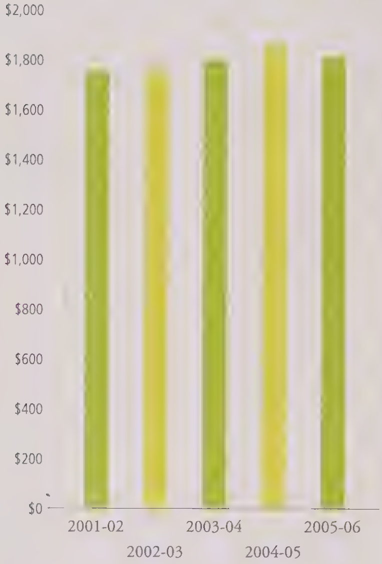
| | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 |
|---|---|---|---|---|---|
| Store salary to sales | 7.3% | 7.3% | 7.1% | 7.0% | 7.0% |
| Store expenses as percentage of sales | 10.3% | 10.4% | 10.3% | 10.4% | 10.3% |
| Store salary per unit sold | $ 0.80 | $ 0.77 | $ 0.78 | $ 0.76 | $ 0.76 |
| Store expenses per unit sold | $ 1.12 | $ 1.10 | $ 1.13 | $ 1.13 | $ 1.12 |
| Unit sales per hour | 28.7 | 31.5 | 32.3 | 33.5 | 34.9 |
| Sales per customer | $ 28.10 | $ 28.51 | $ 29.38 | $ 30.80 | $ 31.57 |
| Sales per square foot | $ 1,752 | $ 1,755 | $ 1,800 | $ 1,859 | $ 1,816 |

*beyond the numbers |*

### Average sales per customer




### Average sales per square foot




For the logistics channel, both warehouse cost per case ratios (by total expenses and salaries) rose during the year. Compared to 2004-05, warehouse salary cost per case increased by $0.03 to $0.93 while warehouse total cost per case rose by $0.05 to $1.16. Distribution cases per hour improved from 62 last year to 64 in 2005-06, better than the target of 63.

*Capital expenditures*

As part of our five-year strategic plan to help customers *Discover the World* of beverage alcohol, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards.

**Logistics – Financial and Operating Highlights**

| | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 |
|---|---|---|---|---|---|
| Warehouse salary cost per case | $ 0.77 | $ 0.83 | $ 0.82 | $ 0.90 | $ 0.93 |
| Warehouse cost per case | $ 1.00 | $ 1.10 | $ 1.03 | $ 1.11 | $ 1.16 |
| Logistics cases per hour | 64 | 66 | 64 | 62 | 64 |
| Logistics cost per case handled | $ 0.59 | $ 0.64 | $ 0.62 | $ 0.66 | $ 0.68 |
| Freight expense per case | $ 1.11 | $ 1.26 | $ 1.40 | $ 1.52 | $ 1.67 |
| Inbound freight as percentage of sales | 1.9% | 2.2% | 2.5% | 2.5% | 2.7% |
| Outbound frieght as percentage of sales | 0.6% | 0.7% | 0.7% | 0.7% | 0.7% |

**Capital Expenditures**

| ($000) | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 |
|---|---|---|---|---|---|
| Retail | 30,813 | 45,497 | 31,896 | 27,981 | 39,650 |
| Retail Store Development and Real Estate | 644 | 1,072 | 351 | 1,639 | 1,228 |
| Information Technology | 14,259 | 12,758 | 6,877 | 6,917 | 7,980 |
| Logistics | 3,493 | 11,848 | 10,158 | 6,487 | 2,464 |
| Marketing Programs | 1,730 | 1,565 | 1,130 | 1,311 | 1,068 |
| Other Administrative Divisions | 4,795 | 2,321 | 3,022 | 3,128 | 2,146 |
| **Total Capital Expenditures** | 55,735 | 75,061 | 53,434 | 47,465 | 54,535 |

*beyond the numbers |*

*looking ahead* ...Net sales are forecast at $3.8 billion, 4.9 per cent higher than 2005-06. Gross margin is forecast to improve by 4.8 per cent to just under $1.9 billion.

...The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.255 billion, $55 million higher than last year.

...Net income is forecast to grow to $1.257 billion, an increase of $53 million.

### Looking ahead

The 2006-07 fiscal year is expected to be one of continued improvement. Net sales are forecast at $3.8 billion, 4.9 per cent higher than 2005-06. Gross margin is forecast to improve by 4.8 per cent to just under $1.9 billion.

Gross margin as a percentage of net sales is forecast to be 48.4 per cent, a slight decrease over the 2005-06 rate of 48.5 per cent, due to ongoing changes in product mix.

Operating income is forecast to rise by 4.7 per cent to $1.20 billion. This will be achieved through planned sales initiatives and continued expense control.

Ongoing inventory reduction programs and efficiency gains in the flow of product through the LCBO warehouse and retail store systems should help increase inventory turns. Retail inventory turns are forecast to be 14.0 per year and warehouse turns are expected to rise 1.0 turns to 12.9 per year.

The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.255 billion, $55 million higher than last year.

Net income is forecast to grow to $1.257 billion, an increase of $53 million.

# *responsibility for financial reporting*

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 27, 2006.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report (page 32) outlines the scope of the Auditor's examination and opinion.

On behalf of management:

PHILIP J. OLSSON
*Acting Chair and Chief Executive Officer*

J. ALEX BROWNING
*Senior Vice President, Finance & Administration, and Chief Financial Officer*

June 27, 2006

# *auditor's report* |

To the Liquor Control Board of Ontario and to the Minister of Public Infrastructure Renewal

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2006 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 27, 2006

JIM McCARTER, CA
*Auditor General*

# *balance sheet* | As at March 31, 2006

| | 2006 | 2005 |
|---|---|---|
| **Assets ($000)** | | |
| **Current** | | |
| Cash and cash equivalents | 108,530 | 106,273 |
| Accounts receivable, trade and others | 20,520 | 23,700 |
| Inventories | 285,817 | 278,267 |
| Prepaid expenses | 13,038 | 11,371 |
| | 427,905 | 419,611 |
| **Long-term** | | |
| Capital Assets (Note 5) | 228,702 | 223,709 |
| | 656,607 | 643,320 |
| **Liabilities and Retained Income** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 320,193 | 315,241 |
| Current portion of accrued benefit obligation (Note 3) | 5,323 | 4,981 |
| | 325,516 | 320,222 |
| **Long-term** | | |
| Accrued benefit obligation (Note 3) | 41,111 | 37,462 |
| **Retained income** | 289,980 | 285,636 |
| | 656,607 | 643,320 |

Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

PHILIP J. OLSSON
*Acting Chair and Chief Executive Officer*

JEAN SIMPSON
*Board Member, Chair, Audit and Governance Review Committee*

## *statement of income and retained income* | Year Ended March 31, 2006

| ($000) | 2006 | 2005 |
|---|---|---|
| **Sales and other income** | 3,682,919 | 3,532,171 |
| **Cost and expenses** | | |
| Cost of sales | 1,885,612 | 1,810,025 |
| Retail stores and marketing | 400,443 | 387,410 |
| Warehousing and distribution | 76,072 | 71,131 |
| Administration | 67,349 | 66,092 |
| Amortization | 49,099 | 50,703 |
| | 2,478,575 | 2,385,361 |
| **Net income for the year** | 1,204,344 | 1,146,810 |
| **Retained income, beginning of year** | 285,636 | 253,826 |
| | 1,489,980 | 1,400,636 |
| **Deduct** | | |
| Dividend paid to the Province of Ontario | 1,195,000 | 1,110,000 |
| Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 5,000 |
| | 1,200,000 | 1,115,000 |
| **Retained income, end of year** | 289,980 | 285,636 |

See accompanying notes to financial statements.

## *statement of cash flows* | Year Ended March 31, 2006

| ($000) | 2006 | 2005 |
|---|---|---|
| **Cash provided from operations** | | |
| Net income | 1,204,344 | 1,146,810 |
| Amortization | 49,099 | 50,703 |
| Loss (Gain) on sale of capital assets | 339 | (2,114) |
| | 1,253,782 | 1,195,399 |
| **Increase (Decrease) in non-cash items** | | |
| Working capital | (1,085) | 7,642 |
| Accrued benefit obligation | 3,991 | 2,302 |
| | 1,256,688 | 1,205,343 |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (54,535) | (47,465) |
| Proceeds from sale of capital assets | 104 | 2,671 |
| | (54,431) | (44,794) |
| **Cash used for financing activities** | | |
| Dividend paid to the Province of Ontario | (1,195,000) | (1,110,000) |
| Payment to municipalities on behalf of the Province of Ontario | (5,000) | (5,000) |
| | (1,200,000) | (1,115,000) |
| **Increase in cash during the year** | 2,257 | 45,549 |
| **Cash and cash equivalents, beginning of year** | 106,273 | 60,724 |
| **Cash and cash equivalents, end of year** | 108,530 | 106,273 |

See accompanying notes to financial statements.

# *notes to financial statements* | March 31, 2006

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

*(A) Basis of Accounting*
The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

*(B) Cash and Cash Equivalents*
Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

*(C) Inventories*
Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

*(D) Capital Assets*
Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years or 10 years |
| Computer Equipment | 3 years or 4 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

*(E) Revenue Recognition*
Revenue is recognized when the sale of products is made to customers.

*(F) Expense Recognition*
Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

*(G) Use of Estimates*
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. Accrued Benefit Obligation

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2006, the cost of these employee future benefits was $10.9 million (2005 – $9.7 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2006 is $46.4 million (2005 – $42.4 million) of which $5.3 million (2005 – $5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2006, the expense was $15.3 million (2005 – $14.7 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

*notes to financial statements* |

### 5. Capital Assets

| ($000) | 2006 Cost | 2006 Accumulated Amortization | 2006 Net Book Value | 2005 Net Book Value |
|---|---|---|---|---|
| Land | 13,223 | – | 13,223 | 13,223 |
| Buildings | 326,884 | 223,215 | 103,669 | 102,584 |
| Furniture and fixtures | 81,194 | 47,797 | 33,397 | 24,989 |
| Leasehold improvements | 207,172 | 152,741 | 54,431 | 61,477 |
| Computer equipment | 103,224 | 79,242 | 23,982 | 21,436 |
| | 731,697 | 502,995 | 228,702 | 223,709 |

### 6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | ($000) |
|---|---|
| 2007 | 38,723 |
| 2008 | 37,049 |
| 2009 | 33,532 |
| 2010 | 28,799 |
| 2011 | 26,468 |
| Thereafter | 200,487 |
| | 365,058 |

### 7. Financial Instruments

The Board's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying values of these instruments approximate fair value due to the short-term maturities of these instruments.

In management's opinion, the Board is not exposed to significant interest, foreign exchange or credit risks arising from these financial instruments. To manage foreign exchange risk associated with its purchases from foreign suppliers, the Board enters into foreign exchange forward contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

As at March 31, 2006 the Board had no (2005 – $2.5 million) foreign exchange forward contracts outstanding.

Credit risk is the risk that a party to a foreign exchange forward contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risks by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

### 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

### 9. Payment to Municipalities

Consistent with prior years, in fiscal 2006, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute $5 million (2005 – $5 million) to assist municipalities with their glass recycling costs. In subsequent years, the LCBO's contribution will be determined by methods to be established under Section 30(1) of the *Waste Diversion Act, 2002*.

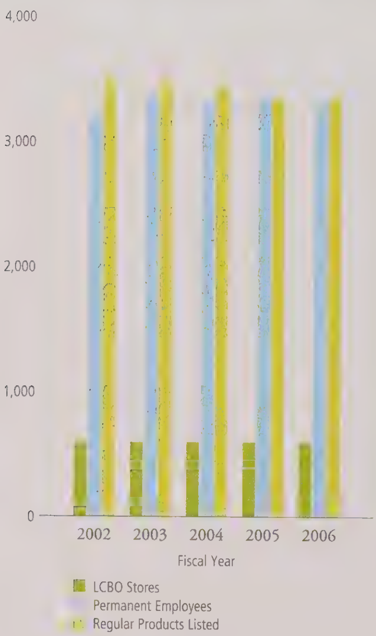
# *financial overview* | KEY OPERATIONAL AND FINANCIAL STATISTICS

| Operations | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Number of LCBO Stores | 599 | 597 | 598 | 597 | 598 |
| Number of Permanent Employees | 3,225 | 3,362 | 3,320 | 3,352 | 3,304 |
| Number of Regular Products Listed | 3,487 | 3,476 | 3,449 | 3,349 | 3,556 |

| Financial (value in $000) | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Net Sales and Other Income | 2,939,563 | 3,119,240 | 3,320,681 | 3,532,171 | 3,682,919 |
| % change/previous year | 7.48% | 6.11% | 6.46% | 6.37% | 4.27% |
| Operating Expenses | 489,633 | 525,959 | 548,778 | 575,336 | 592,963 |
| As a % of Net Sales & Other Income | 16.66% | 16.86% | 16.53% | 16.29% | 16.10% |
| Net Income | 920,912 | 939,542 | 1,045,428 | 1,146,810 | 1,204,344 |
| As a % of Net Sales & Other Income | 31.33% | 30.12% | 31.48% | 32.47% | 32.70% |

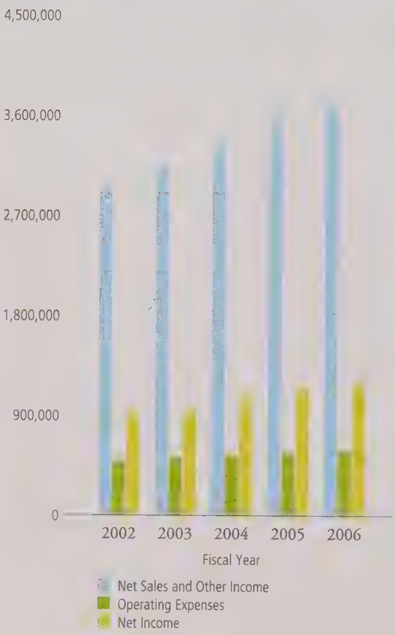
| Breakdown of Operating Expenses (values in $000) | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Salaries and Benefits | 272,594 | 291,762 | 305,664 | 325,369 | 337,969 |
| Depreciation | 44,260 | 47,602 | 49,917 | 50,703 | 49,099 |
| Other Expenses | 172,779 | 186,595 | 193,197 | 199,264 | 205,895 |
| **Total Operating Expenses** | 489,633 | 525,959 | 548,778 | 575,336 | 592,963 |

**Key Indicators: 2002-2006**



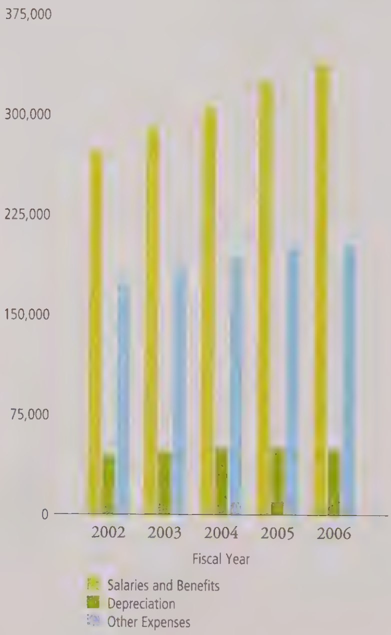

**Financial Indicators: 2002-2006**

(values in $000)




**Operating Expenses: 2002-2006**

(values in $000)



# *financial overview* | REVENUE PAYMENTS (values in $000)

| Treasurer of Ontario | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: | | | | | |
| on account of profits | 905,000 | 975,000 | 1,040,000 | 1,115,000 | 1,200,000 |
| Remitted by the Liquor Control Board: | | | | | |
| Ontario retail sales tax on sales of liquor | 275,072 | 288,884 | 308,134 | 328,753 | 341,773 |
| Remitted by the Alcohol and Gaming Commission: | | | | | |
| on account of licence fees and permits | 530,799 | 526,650 | 487,589 | 488,988 | 516,444 |
| Remitted by others: | | | | | |
| Ontario retail sales tax on sales through The Beer Store and Ontario winery retail stores | 186,308 | 194,320 | 196,733 | 197,890 | 213,264 |
| Ontario retail sales tax on sales through agency stores | 4,027 | 5,596 | 7,582 | 9,076 | 9,697 |
| **Total** | 1,901,206 | 1,990,449 | 2,040,037 | 2,139,707 | 2,281,177 |

| Receiver General for Canada | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: | | | | | |
| Excise taxes and Customs duties | 284,521 | 294,203 | 307,366 | 308,514 | 321,350 |
| Goods and Services Tax | 84,885 | 97,459 | 103,464 | 119,444 | 124,978 |
| Remitted by others: | | | | | |
| Excise taxes, GST and other duties/taxes | 355,868 | 303,508 | 347,231 | 329,810 | 360,779 |
| Goods and Services Tax remitted on sales through agency stores | 2,349 | 3,264 | 4,423 | 5,294 | 5,656 |
| **Total** | 727,623 | 698,434 | 762,484 | 763,062 | 812,763 |

| Ontario Municipalities | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Remitted by the Liquor Control Board: | | | | | |
| Realty taxes* | 12,003 | 11,253 | 12,280 | 13,678 | 14,848 |
| **Total Revenue Payments** | 2,640,832 | 2,700,136 | 2,814,801 | 2,916,447 | 3,108,788 |

*Note: Includes property taxes on leased properties.

## *financial overview* | VOLUME SALES (volume in 000 litres)

| Product Type | 2002 | 2003 | 2004 | 2005 | 2006 | % change |
|---|---|---|---|---|---|---|
| Domestic Spirits | 33,897 | 33,570 | 33,704 | 33,754 | 34,314 | 1.7% |
| Imported Spirits | 19,085 | 19,557 | 20,301 | 21,191 | 21,824 | 3.0% |
| **Total Spirits** | 52,982 | 53,127 | 54,005 | 54,944 | 56,138 | 2.2% |
| Domestic Wine | 28,445 | 29,912 | 30,964 | 32,528 | 33,490 | 3.0% |
| Imported Wine | 63,076 | 66,504 | 70,062 | 75,150 | 78,528 | 4.5% |
| **Total Wine** | 91,521 | 96,416 | 101,025 | 107,678 | 112,018 | 4.0% |
| Domestic Beer | 75,045 | 79,289 | 84,950 | 82,273 | 81,409 | -1.0% |
| Imported Beer | 83,212 | 91,909 | 98,352 | 99,228 | 107,422 | 8.3% |
| **Total Beer** | 158,258 | 171,198 | 183,302 | 181,501 | 188,831 | 4.0% |
| Domestic Spirit Coolers | 25,791 | 29,076 | 26,910 | 26,569 | 26,019 | -2.1% |
| Imported Spirit Coolers | 1,781 | 3,877 | 5,333 | 4,710 | 4,585 | -2.6% |
| Domestic Wine Coolers | 549 | 426 | 233 | 136 | 113 | -17.0% |
| Imported Wine Coolers | 263 | 228 | 253 | 236 | 328 | 39.4% |
| Domestic Beer Coolers | 363 | 108 | 168 | 581 | 605 | 4.1% |
| Imported Beer Coolers | 125 | 332 | 304 | 51 | 96 | 89.4% |
| **Total Coolers** | 28,872 | 34,047 | 33,200 | 32,282 | 31,746 | -1.7% |
| **Total Domestic** | 164,091 | 172,381 | 176,930 | 175,840 | 175,949 | 0.1% |
| **Total Imported** | 167,542 | 182,407 | 194,603 | 200,565 | 212,784 | 6.1% |
| **Total** | 331,633 | 354,787 | 371,532 | 376,406 | 388,733 | 3.3% |

| | 2002 | 2003 | 2004 | 2005 | 2006 | |
|---|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 16,235 | 16,720 | 17,327 | 17,920 | 18,635 | 4.0% |
| Sales by The Beer Store and On-site Stores | 654,017 | 656,093 | 660,077 | 651,593 | 680,843 | 4.5% |

Note: The 2006 figures for sales by The Beer Store (TBS) and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales litres, 49,300,437 were sales to TBS. Prior year figures have been restated.

## *financial overview* | SHARE OF TOTAL SALES

| 2005-06 | Litres (000) | % of Total |
|---|---|---|
| Spirits | 56,138 | 14% |
| Wine | 112,018 | 29% |
| Beer | 188,831 | 49% |
| Coolers | 31,746 | 8% |
| | 388,733 | 100% |

## *financial overview* | VALUE SALES (values in $000)

| Product Type | 2002 | 2003 | 2004 | 2005 | 2006 | % change |
|---|---|---|---|---|---|---|
| Domestic Spirits | 764,465 | 761,892 | 781,353 | 809,302 | 827,310 | 2.2% |
| Imported Spirits | 499,645 | 516,510 | 541,882 | 582,440 | 613,977 | 5.4% |
| **Total Spirits** | 1,264,110 | 1,278,402 | 1,323,235 | 1,391,741 | 1,441,287 | 3.6% |
| Domestic Wine | 231,411 | 245,972 | 263,396 | 284,158 | 297,185 | 4.6% |
| Imported Wine | 721,127 | 780,390 | 859,107 | 945,402 | 1,005,253 | 6.3% |
| **Total Wine** | 952,538 | 1,026,362 | 1,122,502 | 1,229,560 | 1,302,438 | 5.9% |
| Domestic Beer | 254,271 | 274,262 | 303,662 | 301,607 | 297,346 | -1.4% |
| Imported Beer | 296,752 | 340,900 | 372,231 | 403,456 | 444,258 | 10.1% |
| **Total Beer** | 551,023 | 615,163 | 675,892 | 705,063 | 741,604 | 5.2% |
| Domestic Spirit Coolers | 125,018 | 141,747 | 133,457 | 136,221 | 133,721 | -1.8% |
| Imported Spirit Coolers | 10,136 | 21,083 | 29,151 | 26,968 | 27,524 | 2.1% |
| Domestic Wine Coolers | 2,147 | 1,617 | 914 | 552 | 470 | -14.8% |
| Imported Wine Coolers | 1,442 | 1,261 | 1,402 | 1,309 | 1,915 | 46.3% |
| Domestic Beer Coolers | 1,203 | 421 | 826 | 2,762 | 2,876 | 4.1% |
| Imported Beer Coolers | 537 | 1,547 | 1,201 | 213 | 400 | 87.7% |
| **Total Coolers** | 140,483 | 167,675 | 166,951 | 168,024 | 166,905 | -0.7% |
| **Total Domestic** | 1,378,516 | 1,425,911 | 1,483,607 | 1,534,600 | 1,558,908 | 1.6% |
| **Total Imported** | 1,529,639 | 1,661,691 | 1,804,974 | 1,959,788 | 2,093,327 | 6.8% |
| **Non Liquor and Other** | 12,141 | 10,087 | 9,316 | 10,995 | 7,201 | -34.5% |
| **Total** | 2,920,296 | 3,097,690 | 3,297,897 | 3,505,383 | 3,659,436 | 4.4% |

| | 2002 | 2003 | 2004 | 2005 | 2006 | |
|---|---|---|---|---|---|---|
| Sales by Ontario Winery Stores | 137,994 | 146,502 | 153,621 | 164,153 | 175,170 | 6.7% |
| Sales by The Beer Store and On-site Stores | 2,181,920 | 2,254,756 | 2,311,230 | 2,312,479 | 2,553,790 | 10.4% |

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store (TBS) consist of net sales plus GST. Category totals produced here include sales through VINTAGES and the LCBO Private Ordering program, and therefore do not match the totals found in the Product Trends sections of this Annual Report. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales, $209,527,009 were sales to TBS. Prior year figures have been restated.

## *financial overview* | SHARE OF TOTAL SALES (values in $000)

| 2005-06 | ($000) | % of Total |
|---|---|---|
| Spirits | 1,441,287 | 39% |
| Wine | 1,302,438 | 36% |
| Beer | 741,604 | 20% |
| Coolers | 166,905 | 5% |
| | 3,652,235 | 100% |

## *financial overview* | PRODUCT LISTINGS

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Spirits | 486 | 460 | 472 | 430 | 442 |
| Wine | 481 | 469 | 432 | 434 | 447 |
| Beer | 426 | 444 | 473 | 433 | 494 |
| **Imported** | | | | | |
| Spirits | 675 | 652 | 691 | 680 | 738 |
| Wine | 1,163 | 1,187 | 1,124 | 1,143 | 1,160 |
| Beer | 256 | 264 | 257 | 229 | 275 |
| **Total Regular Listings** | 3,487 | 3,476 | 3,449 | 3,349 | 3,556 |
| Vintages Wines and Spirits | 2,858 | 3,127 | 4,250 | 4,464 | 5,953 |
| Duty-Free Listings | 224 | 240 | 221 | 229 | 234 |
| Consignment Warehouse and Private Stock | 5,444 | 6,813 | 7,286 | 8,204 | 9,483 |
| **Total Product Listings** | 12,013 | 13,656 | 15,206 | 16,246 | 19,226 |

Note: Product listing figures for Consignment Warehouse and Private Stock are estimated based on invoices produced by Specialty Services. The total does not include products discontinued during the fiscal year.

## *financial overview* | LCBO SALES CHANNEL SUMMARY (values in $000)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| LCBO Total Sales | 3,417,729 | 3,622,049 | 3,857,394 | 4,101,684 | 4,284,222 |
| The Beer Store Total Sales | 2,522,993 | 2,607,077 | 2,638,488 | 2,639,319 | 2,517,856 |
| Winery Retail Stores | 162,539 | 174,284 | 182,349 | 195,280 | 208,452 |
| **Other Channels** | | | | | |
| Legal | 1,017,104 | 957,073 | 667,687 | 702,261 | 641,091 |
| Homemade | 48,013 | 50,852 | 148,163 | 157,301 | 153,239 |
| De-alcoholized Beer | 20,191 | 19,125 | 20,503 | 17,293 | 16,070 |
| Illegal | 432,435 | 455,529 | 442,971 | 523,572 | 550,219 |
| **Grand Total** | 7,621,004 | 7,885,989 | 7,957,555 | 8,336,711 | 8,371,150 |

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store (TBS) figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the charts below.

The methodology used to estimate certain categories under Other Channels were revised in 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

## *financial overview* | SHARE OF ONTARIO BEVERAGE MARKET (2004-05 Share in Brackets)

| | |
|---|---|
| LCBO | 51.2% (49.2%) |
| The Beer Store | 30.1% (31.7%) |
| Other Legal | 9.7% (10.5%) |
| Illegal | 6.6% (6.3%) |
| Winery Retail Stores | 2.5% (2.3%) |

## *financial overview* | AVERAGE LCBO NET SALES PER LITRE (prices excludes GST and PST)

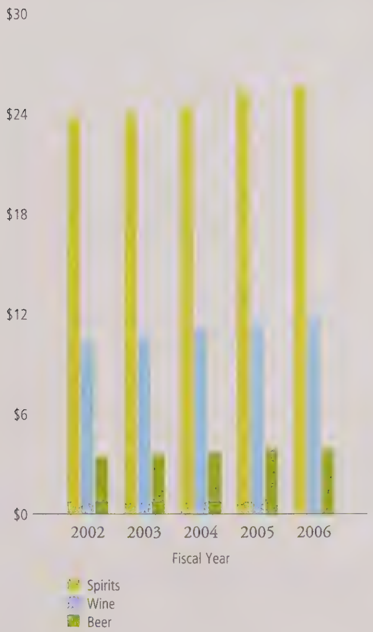
| Product Type | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Spirits | $ 23.86 | $ 24.06 | $ 24.50 | $ 25.33 | $ 25.67 |
| Wine | $ 10.41 | $ 10.65 | $ 11.11 | $ 11.42 | $ 11.63 |
| Beer | $ 3.48 | $ 3.59 | $ 3.69 | $ 3.88 | $ 3.93 |
| Average Transaction Per Customer | $ 31.05 | $ 31.90 | $ 32.97 | $ 34.52 | $ 35.55 |

Note: Includes Coolers

## *financial overview* | REVENUE DISTRIBUTION

| | Domestic Spirits | Domestic Wine | Domestic Beer |
|---|---|---|---|
| Supplier | 19% | 40% | 41% |
| Federal Government | 21% | 10% | 12% |
| Provincial Government | 60% | 50% | 40% |
| Deposit | | | 7% |

Average LCBO Net Sales Per Litre: 2002-2006



# *financial overview* | LCBO SALES VOLUME BY CATEGORY 2005-06

The tables below show the share of volume sales held by various segments within major product categories.

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|---|
| **Canadian Spirits** | | | | | |
| Canadian Whisky | 19.0% | 17.4% | 17.6% | 17.6% | 17.4% |
| Canadian Rum | 9.3% | 8.6% | 8.7% | 8.7% | 8.8% |
| Canadian Vodka | 9.4% | 8.9% | 9.1% | 9.1% | 9.7% |
| Canadian Liqueur | 1.8% | 1.9% | 2.1% | 2.3% | 2.4% |
| Spirit Coolers | 32.1% | 33.9% | 31.3% | 30.9% | 30.1% |
| Canadian Dry Gin | 1.2% | 1.0% | 0.9% | 0.9% | 0.8% |
| Other | 1.4% | 1.2% | 0.8% | 0.6% | 0.6% |
| **Imported Spirits** | | | | | |
| Scotch | 4.7% | 4.4% | 4.5% | 4.6% | 4.5% |
| Liqueur | 4.0% | 3.7% | 3.7% | 3.6% | 3.5% |
| Miscellaneous Liquors | 3.6% | 3.5% | 3.2% | 3.4% | 3.4% |
| Vodka | 4.0% | 4.1% | 4.3% | 4.8% | 5.0% |
| French Brandy | 2.1% | 2.0% | 2.1% | 2.1% | 2.1% |
| Spirit Coolers | 2.2% | 4.5% | 6.2% | 5.5% | 5.3% |
| Other | 5.2% | 4.9% | 5.7% | 6.0% | 6.4% |
| **Total Spirits** (000 litres) | 80,363 | 85,856 | 86,062 | 86,035 | 86,527 |
| **Canadian Wines** | | | | | |
| White Table | 15.2% | 14.9% | 14.9% | 14.6% | 14.5% |
| Red Table | 8.2% | 8.5% | 9.0% | 9.2% | 9.1% |
| Rose Table | 0.8% | 0.9% | 1.0% | 1.0% | 1.0% |
| 7% Sparkling | 1.7% | 1.6% | 1.5% | 1.4% | 1.3% |
| Fortified | 1.7% | 1.6% | 1.5% | 1.5% | 1.3% |
| Wine Coolers | 0.6% | 0.5% | 0.2% | 0.1% | 0.1% |
| Other | 2.6% | 2.0% | 1.6% | 1.3% | 1.2% |
| **Imported WInes** | | | | | |
| White Table | 25.1% | 24.4% | 23.7% | 22.9% | 22.9% |
| Red Table | 32.8% | 34.3% | 35.7% | 37.6% | 38.3% |
| Rose Table | 2.5% | 2.3% | 2.0% | 1.7% | 1.6% |
| Sparkling | 2.4% | 2.4% | 2.3% | 2.2% | 2.2% |
| Fortified | 2.1% | 2.0% | 1.9% | 1.8% | 1.6% |
| Wine Coolers | 0.3% | 0.2% | 0.3% | 0.2% | 0.3% |
| Other | 4.2% | 4.5% | 4.9% | 4.7% | 4.8% |
| **Total Wine** (000 litres) | 88,809 | 91,608 | 96,342 | 102,077 | 105,724 |
| **Canadian Beer** | | | | | |
| Ontario Beer | 44.0% | 41.7% | 40.8% | 42.3% | 42.7% |
| Other Canadian Beer | 6.4% | 7.2% | 8.2% | 5.6% | 3.0% |
| **Imported Beer** | | | | | |
| U.S. Beer | 12.5% | 11.6% | 9.8% | 8.9% | 8.8% |
| Other Imported Beer | 37.1% | 39.4% | 41.1% | 43.1% | 45.4% |
| Sake | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| **Total Beer** (000 litres) | 144,665 | 157,173 | 168,101 | 164,827 | 170,245 |
| **Total** (000 litres) | 313,837 | 334,637 | 350,505 | 352,939 | 362,496 |

Notes: These figures exclude Private Ordering and other head office sales.

# *financial overview* | LCBO NET SALES BY CATEGORY 2005-06

The tables below show the share of net sales held by various segments within major product categories.

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|---|
| **Canadian Spirits** | | | | | |
| Canadian Whisky | 25.4% | 24.4% | 24.3% | 23.9% | 23.1% |
| Canadian Rum | 12.1% | 11.7% | 11.6% | 11.5% | 11.4% |
| Canadian Vodka | 12.2% | 12.1% | 12.2% | 12.2% | 12.7% |
| Canadian Liqueur | 2.1% | 2.3% | 2.5% | 2.7% | 2.8% |
| Spirit Coolers | 9.0% | 9.9% | 9.0% | 8.8% | 8.4% |
| Canadian Dry Gin | 1.6% | 1.4% | 1.2% | 1.2% | 1.1% |
| Other | 1.3% | 1.1% | 0.9% | 0.7% | 0.6% |
| **Imported Spirits** | | | | | |
| Scotch | 8.2% | 8.0% | 8.0% | 8.0% | 7.9% |
| Liqueur | 6.3% | 6.0% | 5.9% | 5.7% | 5.5% |
| Miscellaneous Liquors | 5.7% | 5.7% | 4.9% | 5.0% | 5.0% |
| Vodka | 5.0% | 5.3% | 5.6% | 6.3% | 6.7% |
| French Brandy | 3.7% | 3.9% | 3.9% | 3.8% | 3.7% |
| Spirit Coolers | 0.7% | 1.5% | 2.0% | 1.7% | 1.7% |
| Other | 6.6% | 6.6% | 8.0% | 8.5% | 9.4% |
| **Total Spirits** ($000) | 1,392,692 | 1,433,253 | 1,483,032 | 1,551,321 | 1,598,743 |
| **Canadian Wines** | | | | | |
| White Table | 11.9% | 11.6% | 11.3% | 10.5% | 10.4% |
| Red Table | 6.7% | 6.9% | 7.1% | 7.2% | 7.0% |
| Rose Table | 0.6% | 0.6% | 0.7% | 0.7% | 0.7% |
| 7% Sparkling | 1.0% | 1.0% | 0.9% | 0.8% | 0.8% |
| Fortified | 1.2% | 1.1% | 1.0% | 1.0% | 0.9% |
| Wine Coolers | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% |
| Other | 1.9% | 1.6% | 1.4% | 1.7% | 1.7% |
| **Imported WInes** | | | | | |
| White Table | 23.9% | 23.1% | 22.3% | 22.0% | 22.3% |
| Red Table | 40.0% | 41.8% | 43.5% | 44.9% | 45.3% |
| Rose Table | 2.1% | 1.9% | 1.6% | 1.3% | 1.3% |
| Sparkling | 4.4% | 4.4% | 4.2% | 4.2% | 4.2% |
| Fortified | 2.5% | 2.3% | 2.2% | 2.1% | 2.0% |
| Wine Coolers | 0.2% | 0.1% | 0.1% | 0.1% | 0.2% |
| Other | 3.5% | 3.6% | 3.7% | 3.5% | 3.3% |
| **Total Wine** ($000) | 913,281 | 972,246 | 1,056,979 | 1,151,035 | 1,209,678 |
| **Canadian Beer** | | | | | |
| Ontario Beer | 42.2% | 39.6% | 38.7% | 39.4% | 39.0% |
| Other Canadian Beer | 6.0% | 6.7% | 7.7% | 5.6% | 3.4% |
| **Imported Beer** | | | | | |
| U.S. Beer | 10.6% | 10.0% | 8.3% | 7.8% | 7.8% |
| Other Imported Beer | 40.9% | 43.4% | 45.0% | 46.8% | 49.4% |
| Sake | 0.3% | 0.3% | 0.3% | 0.4% | 0.4% |
| **Total Beer** ($000) | 521,534 | 584,149 | 641,364 | 653,391 | 679,264 |
| **Total** ($000) | 2,827,508 | 2,989,647 | 3,181,375 | 3,355,746 | 3,487,685 |

Notes: These figures exclude Private Ordering and other head office sales.

# *financial overview* | LCBO SALES BY COUNTRY OF ORIGIN – VALUE AND VOLUME

**Spirits 2005-06**

| | | Net Sales | Litres |
|---|---|---|---|
| Canada | $ | 960,713,002 | 60,308,648 |
| Great Britain | $ | 202,810,471 | 9,945,561 |
| France | $ | 99,273,835 | 2,821,738 |
| USA | $ | 75,739,145 | 3,429,888 |
| Ireland | $ | 58,405,435 | 2,056,808 |
| Sweden | $ | 42,250,489 | 1,816,278 |
| Mexico | $ | 38,016,386 | 1,209,926 |
| Italy | $ | 33,434,528 | 1,349,935 |
| Russian Federation | $ | 13,237,730 | 566,858 |
| Germany | $ | 13,111,998 | 455,164 |
| Finland | $ | 11,335,290 | 471,992 |
| Poland | $ | 9,719,116 | 365,290 |
| Jamaica | $ | 5,511,548 | 203,212 |
| Barbados | $ | 4,497,146 | 168,964 |
| Greece | $ | 4,035,700 | 174,129 |
| South Africa | $ | 3,596,989 | 139,039 |
| Switzerland | $ | 3,105,289 | 101,536 |
| Netherlands | $ | 2,583,027 | 117,314 |
| Cuba | $ | 2,125,305 | 77,374 |
| New Zealand | $ | 1,149,407 | 135,790 |
| Czech Republic | $ | 1,009,188 | 12,491 |
| Portugal | $ | 975,621 | 33,269 |
| Croatia | $ | 930,415 | 32,744 |
| Bermuda | $ | 930,154 | 37,602 |
| Australia | $ | 874,464 | 167,780 |
| Austria | $ | 868,541 | 17,223 |
| Spain | $ | 794,514 | 31,205 |
| Puerto Rico | $ | 779,362 | 20,453 |
| Dominican Republic | $ | 745,300 | 26,831 |
| Guyana | $ | 678,895 | 24,257 |
| Republic of Yugoslavia | $ | 587,827 | 20,433 |
| Hungary | $ | 583,017 | 22,808 |
| Ukraine | $ | 570,124 | 20,396 |
| Nicaragua | $ | 486,454 | 17,618 |
| Denmark | $ | 473,663 | 23,674 |
| Bahamas | $ | 462,092 | 14,462 |
| India | $ | 445,600 | 19,089 |
| Lebanon | $ | 413,383 | 15,772 |
| British Virgin Islands | $ | 368,612 | 18,705 |
| Peoples Republic of China | $ | 292,422 | 8,507 |
| Trinidad | $ | 184,912 | 5,061 |
| Israel | $ | 138,906 | 6,929 |
| Brazil | $ | 104,701 | 3,647 |
| Chile | $ | 99,077 | 3,827 |
| Turkey | $ | 81,414 | 2,273 |
| Japan | $ | 65,678 | 495 |
| Sri Lanka | $ | 52,181 | 1,865 |
| Macedonia | $ | 25,292 | 998 |
| Belgium | $ | 24,516 | 771 |
| Philippines | $ | 22,395 | 1,046 |
| Colombia | $ | 19,900 | 501 |
| Bulgaria | $ | 13,991 | 464 |
| Saint Lucia | $ | 8,494 | 465 |
| Grenada | $ | 5,538 | 125 |
| **Total** | $ | 1,598,768,478 | 86,529,230 |

## *financial overview* | LCBO SALES BY COUNTRY OF ORIGIN – VALUE AND VOLUME *(continued)*

| Wine 2005-06 | | Net Sales | Litres |
|---|---|---|---|
| Canada | $ | 260,634,202 | 30,222,385 |
| Australia | $ | 225,288,445 | 15,435,613 |
| Italy | $ | 206,617,653 | 17,464,717 |
| France | $ | 192,636,614 | 14,102,740 |
| USA | $ | 112,636,249 | 9,669,426 |
| Chile | $ | 55,490,708 | 5,128,235 |
| South Africa | $ | 33,260,131 | 3,068,611 |
| Spain | $ | 29,382,410 | 2,174,350 |
| Portugal | $ | 26,111,695 | 2,054,009 |
| Germany | $ | 20,583,430 | 1,859,021 |
| New Zealand | $ | 16,979,678 | 923,019 |
| Argentina | $ | 11,662,409 | 1,085,022 |
| Great Britain | $ | 4,863,135 | 1,075,834 |
| Greece | $ | 4,091,613 | 466,824 |
| Hungary | $ | 2,842,601 | 330,948 |
| Bulgaria | $ | 1,461,442 | 174,258 |
| Japan | $ | 1,186,193 | 83,074 |
| Israel | $ | 926,365 | 70,015 |
| Republic of Yugoslavia | $ | 884,744 | 105,116 |
| Belgium | $ | 715,165 | 120,606 |
| Austria | $ | 414,556 | 28,325 |
| Mexico | $ | 406,717 | 36,478 |
| Poland | $ | 373,016 | 25,577 |
| Croatia | $ | 368,134 | 36,909 |
| Romania | $ | 364,549 | 33,516 |
| Republic of Moldova | $ | 337,777 | 34,502 |
| Jamaica | $ | 337,107 | 30,674 |
| Republic of Korea | $ | 321,797 | 14,186 |
| Denmark | $ | 197,104 | 15,353 |
| Lebanon | $ | 173,434 | 10,877 |
| Macedonia | $ | 165,425 | 24,164 |
| Georgia | $ | 132,805 | 8,714 |
| Switzerland | $ | 93,869 | 4,146 |
| Uruguay | $ | 84,263 | 6,297 |
| Ukraine | $ | 44,448 | 2,084 |
| Cyprus | $ | 38,658 | 3,184 |
| Luxembourg | $ | 28,547 | 1,348 |
| Slovakia | $ | 4,840 | 229 |
| Ireland | $ | 1,012 | 301 |
| Russian Federation | $ | 572 | 40 |
| Jordan | $ | 24 | 2 |
| Peoples Republic of China | $ | 24 | 5 |
| **Total** | $ | 1,212,143,560 | 105,930,733 |

| Beer 2005-06 | | Net Sales | Litres |
|---|---|---|---|
| Canada | $ | 288,008,493 | 77,747,142 |
| Mexico | $ | 89,852,403 | 18,991,439 |
| Netherlands | $ | 87,486,772 | 19,522,173 |
| USA | $ | 53,505,637 | 15,031,992 |
| Belgium | $ | 38,481,821 | 8,226,468 |
| Germany | $ | 34,960,580 | 9,641,482 |
| Ireland | $ | 16,100,443 | 3,356,094 |
| Great Britain | $ | 14,218,474 | 3,264,262 |
| Denmark | $ | 13,213,445 | 3,779,008 |
| Poland | $ | 10,542,291 | 2,842,193 |
| Czech Republic | $ | 7,679,623 | 2,019,894 |
| Brazil | $ | 3,951,005 | 823,918 |
| Jamaica | $ | 2,118,137 | 443,138 |
| France | $ | 2,014,708 | 461,544 |
| Argentina | $ | 1,715,110 | 453,666 |
| Austria | $ | 1,555,589 | 485,192 |
| Peoples Republic of China | $ | 1,437,339 | 362,166 |
| Slovakia | $ | 1,267,282 | 342,045 |
| Trinidad | $ | 1,120,376 | 265,088 |
| Singapore | $ | 785,025 | 231,045 |
| Thailand | $ | 768,077 | 166,150 |
| Italy | $ | 699,516 | 163,381 |
| Portugal | $ | 655,701 | 174,151 |
| South Africa | $ | 534,363 | 155,362 |
| Ukraine | $ | 524,284 | 141,104 |
| Slovenia | $ | 491,351 | 143,986 |
| Japan | $ | 479,889 | 125,625 |
| Russian Federation | $ | 465,132 | 136,427 |
| Lithuania | $ | 319,847 | 92,141 |
| New Zealand | $ | 278,790 | 68,083 |
| Cuba | $ | 236,492 | 54,442 |
| Philippines | $ | 218,837 | 48,426 |
| Croatia | $ | 168,473 | 46,250 |
| Kenya | $ | 165,252 | 33,840 |
| Latvia | $ | 156,604 | 45,241 |
| Sri Lanka | $ | 152,630 | 32,571 |
| Greece | $ | 136,224 | 32,484 |
| Estonia | $ | 90,687 | 25,223 |
| Hungary | $ | 68,024 | 26,004 |
| Vietnam | $ | 46,059 | 11,361 |
| Australia | $ | 39,812 | 9,224 |
| India | $ | 34,814 | 8,760 |
| Cyprus | $ | 27,645 | 6,018 |
| Taiwan | $ | 87 | 31 |
| **Total** | $ | 676,773,143 | 170,036,232 |

Note: Net value represents net sales excluding Private Ordering sales. In fiscal 2005-06, the LCBO sold products from 72 different countries.

# *environmental information*

This Annual Report is printed on Canadian-made Rolland Enviro100 paper manufactured from 100 per cent post-consumer waste fibre, is Process Chlorine Free (PCF) and used BioGas in its production (an alternative "green energy" source produced from decomposing waste collected from landfill sites) to reduce greenhouse emissions and the depletion of the ozone layer.

Rolland Enviro100 saves the harvesting of mature trees, reduces solid waste that would have gone into landfill sites, uses 80 per cent less water than conventional paper manufacturing and helps reduce air and water pollution.

**Environmental savings based on 4,088 lb. / 1,854 kg of Rolland Enviro100 paper:**

**Trees:** Mature trees that would have been cut = 35 trees

**Waste:** Solid waste not generated = 2,210 lb. / 1,002 kg

**Water:** Waterborne waste not created = 14.1 lb. / 6 kg
Water/wastewater flow saved = 20,841 gallons / 94,743.5 litres

**Air:** Atmospheric emissions eliminated = 4,288 lb. / 1,946 kg
Energy not consumed = 34,352,077 BTU
Natural gas saved by using biogas = 5,065 cubic feet / 143 $m^3$
Lowered air emissions ($CO_2$, $SO_2$, $NO_x$) by = 560 lb. / 253 kg

An online version of this Annual Report is available at www.lcbo.com

Certified

Processed Chlorine Free

100% Post-Consumer Waste Fibre

Recyclable Where facilities Exist

Green Energy Source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